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INSTITUTO DE ECONOMIA

SOPHIA GICUKU

THE ROLE OF THE INFORMAL SECTOR IN SOCIAL DEVELOPMENT IN KENYA

O PAPEL DO SETOR INFORMAL NO DESENVOLVIMENTO SOCIAL DO QUÊNIA

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Prof.ª Dr.ª Eugênia Troncoso Leone – orientadora

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Defendida em 18/10/2017

COMISSÃO JULGADORA

Prof.ª Dr.ª Eugênia Troncoso Leone
Instituto de Economia / UNICAMP

Prof. Dr. Pedro Henrique Evangelista Duarte
Universidade Federal de Uberlândia (UFU)

Prof. Dr. Roberto Alexandre Zanchetta Borghi
Instituto de Economia / UNICAMP

A Ata de Defesa, assinada pelos membros da Comissão Examinadora, consta no processo de vida acadêmica da aluna.

Abstract

Since its popularization by the ILO in 1972, Kenya has developed a very vibrant informal sector. It serves as a shelter to over 80% of the population in Kenya. Majority of these informal workers are low earners trying to survive the everyday hardships. The study therefore examines the contribution of the informal sector to social development in Kenya.

The main objectives were: To explore general concepts of the informal sector and development, as a background for the analysis of the informal sector in Kenya, To describe the historical background of the informal sector in Kenya, To portray the current status of the informal sector and the socio-economy in Kenya, To find out the role of the informal sector on social development in relation to poverty reduction in Kenya.

The study adopted a qualitative research approach and secondary data was used in order to obtain the same purpose and street vendors were used as the methodological delimitation.

The study concluded that the informal sector contributes to the reduction of household poverty as most of the individuals involved are able afford a meal and cater for other daily needs. However, to alleviate poverty and attain development, the study suggested government interventions that would increase the earnings of these workers.

Resumo

Desde a sua pela popularizacao pela ILO em 1972, o setor informal se desenvolveu no Quenia de forma acelerada, canalizando mais de Desde a sua descoberta pela ILO 80% da sua populacao. A maioria destes trabalhadores informais são pessoas ocupadas de baixa renda tentando sobreviver às dificuldades cotidianas. O estudo, portanto, examina a contribuição do setor informal para o desenvolvimento social no Quênia.

Os principais objetivos fora; explorar conceitos gerais do setor informal e desenvolvimento, como pano de fundo para a análise do setor informal no Quênia; descrever os antecedentes históricos do setor informal no Quênia, retratar o estado atual do setor informal no Quênia e as characteristicas social economicas no Quênia, analizar o papel do setor informal no desenvolvimento social em relação à redução da pobreza no Quênia.

O estudo adotou uma abordagem de pesquisa qualitativa, a traves da qual foram analizados dados secondarios, obtidos a traves do estudo de mesa e os vendedores ambulantes foram utilizados como delimitação metodológica.

O estudo concluiu que o setor informal contribui para a redução da pobreza doméstica, pois a maioria dos indivíduos envolvidos pode pagar uma refeição e atender a outras necessidades diárias. No entanto, para aliviar a pobreza e alcançar o desenvolvimento, recomenda - intervenções governamentais que aumentariam os ganhos desses trabalhadores.

LIST OF ACCRONYMS AND ABBREVIATIONS

ILO	International Labour Organization
GDP	Gross Domestic Product
SME	Small Micro Enterprises
UNDP	United Nations Development Programme
ICFTU	International Confederation of Free Trade Unions
IS	Import Substitution
SAPs	Structural Adjustment Programme
G.O.K	Government of Kenya
HIV/ AIDs	Human immunodeficiency virus infection and acquired immune deficiency syndrome
UN	United Nations
KIHBS	Kenya Integrated Household Budget Survey
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
PIN	Personal Identification Number
KRA	Kenya Revenue Authority
VAT	Value Added Tax
IEA	Institute of Economic Affairs
ICT	Information and Communications Technology
COTU	Central Organization of Trade Unions
USD	United States Dollars
NCBDA	Nairobi Central Business District Association

LIST OF TABLES & FIGURES

TABLE OF CONTENT

CHAPTER 4: THE ROLE OF THE INFORMAL SECTOR IN POVERTY REDUCTION IN KENYA

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

INTRODUCTION

The informal economy is with no doubt significant in the developing countries. The sector accounts for about 78 percent in Sub-Saharan Africa; in Asia 65 percent; in Latin America 51 percent; and in North Africa 48 percent. The sector's share of GDP is 41 percent in Sub Saharan Africa; 31 percent in Asia; 29 percent in Latin America; and 27 percent in North Africa (ILO, 2002).

According to (Chen) 2012 contrary to early predictions, the informal economy has continued to grow and has appeared in new forms. Today, it represents a significant share of the global economy and workforce. In a paper by Sinha on the ILO "Trade and the Informal, 2009", it was demonstrated that during the 1960's and 1970's, the informal economy would shrink with economic growth. However, even after the global growth that led to the increase in international trade, many jobs in developing countries remain in the informal economy. Further he concludes that, "on average, 60% of employment in developing countries is in the informal sector. From the research findings in 1990's and 2000s, there is an indication that globalization and the trade reforms show a tendency to encourage precarious forms of work."

Informal sector is a concept that has been debated overtime by scholars and organizations in order to have one definition leading to a variety of definitions. In Africa, the informal economy contributes significantly to the Gross National Income (GNI), to job creation, to income generation of the majority of citizens, as well as provision of vital services to the poor segments of the society. In Sub-Saharan Africa, the informal economy represents three-quarters of non-agricultural employment and accounts for 78 per cent of employment in the region (ILO, 2002).

The informal sector represents the dominant share of many sectors across the continent, especially in manufacturing, commerce, finance and mining. Trade-related activities, such as street vending is the most common form of activity in Africa's informal sector. The sector has been expanding mostly in the urban areas in the developing countries especially in Asia and Sub-Saharan Africa as a result of the population growth and the rural – urban migration.

As indicated by the World Bank (2014) Africa is now the world's youngest continent. As other continents struggle with an aging people, in most African countries the young people constitute the majority of population. This is evident in Kenya where 80% of unemployed Kenyans are below 35 years old while youth unemployment is estimated to be as high as 35% compared to the overall national unemployment rate of 10%. (The Guardian, 2016)

After the attainment of independence in Kenya, eradication of poverty, ignorance and disease were among the important targets of government efforts (Republic of Kenya, 1965). Other targets in the 1960s and 1970s included, strengthening the role and participation of the state through setting minimum wages, price and interest rates controls, subsidizing education, agricultural inputs, guaranteeing public sector employment and population control measures. While such measures were associated with a phase of rapid economic growth immediately after independence, this momentum has not been sustained. In fact, according to Mwabu et. al. (2000), a number of these measures had significant negative effects on overall economic dynamism in that they failed to create the necessary conditions for the economy to absorb increasing numbers of unemployment and to uplift the earnings of those employed in both formal and informal sectors.

Moreover, the labour market in Kenya has undergone several changes since the country's independence in 1963. The rapid expansion of the education system for example has resulted to increase supply of educated labour. (Manda, 1997) According to a comprehensive report (World Bank, 2006) in regard to the Kenyan informal sector, housing, social services provision and slum, there is a tremendous increase in the activities and involvement of the population in the sector. This has been largely due to the privatization of the public sector as well as rise in the unemployment rate especially among the youth.

Like many other developing countries, Kenya has in the last few years experienced rapid urbanization which has simultaneously risen with the poverty levels. The World Bank and City Alliance figures indicate levels closer to a half of Kenya's urban population is living in poverty by any measure and also suggests that by 2020, urban poverty will represent almost half (48.9%) of the total poverty in the country. (Kessides, 2006)

Unemployment and partly earnings according to the Kenya Economic report (2009) have been cited as among the major factors that have contributed to poverty in the urban areas. Moreover, unemployment has become a youth issue over the recent years. It is therefore no wonder that a focus on employment participation among the youth is being upheld as the right channel towards the attainment of development and the poverty reduction. The rapidly growing form of employment in Kenya has been the self-employment. However, it is largely found in the informal sector in the form of Micro and Small Enterprises (SME).

The Economic Report (2015) indicates that informal sector created 693.4 thousand new jobs in 2014 constituting 82.7%. As a result, the importance of the sector's contribution to job creation in the country has been commended as it is reflected in various studies in the country. Consequently, International Labour Organization estimates show that small and micro enterprise account for 59% of sub-Saharan

Africans urban labour force (Ondiege, 2010), with countries like Kenya amounting to 40-80% of urban work force being informal work force and street vendors.

Since it's popularization in the 1970s, the informal economy and its role in economic development have been hotly debated. Some observers view the informal economy as a "pool" of entrepreneurial talent or a "cushion" during economic crises. Others view it more problematically, arguing that informal entrepreneurs deliberately avoid regulation and taxation. Still others see the informal economy as a source of livelihood for the working poor (Wiego, 2012). Similarly, some scholars see the informal sector as a hindrance to development (Farrell, 2004) and others see it as a potential source of economic growth and poverty alleviation (Schneider and Ernste, 2000). Each of these perspectives is right in regard to specific components or aspects of the informal economy and will be discussed in chapter one.

There is a notable trend that informal employment is generally a large source of employment for women than for men in the developing world. In Sub-Saharan Africa for example, 84 per cent of women non-agricultural workers are employed informally compared to 63 per cent of men. (Chen, 2006) This is manifested in Kenya and is in both rural and urban areas. In 2003 for example, the percentage of female youth (aged 15–24 years) in informal employment in urban areas was 64 and 73% in rural areas compared to 5.3 and 11.7% for males in both locations. (UN-HABITAT / UNEP, 2010)

In over a decade, the government of Kenya has not been able to offer a solution for unemployment. Further, the formal has been overtime been difficult to find. This has led to many people relying on the informal sector as a way of survival thus playing a role in socio-economic development. The sector absorbs labour force that is not capable of penetrating the formal sector, acting as supplementary role in employment and income generation (Reddy, 2007). In Nairobi for example, the rate of job creation in the formal sector does not match the pace of labour increase, with the surplus labour force being absorbed by the informal sector (Obudho, 1997).

Due to the difficult economic situation and high poverty levels Nairobi administration to considered hawking as one of the channel to fostering the private sectors contribution to both growth and equity of development (Macharia, 2013) However, little attention is given to their activities, working conditions, relation with authorities, policies and regulations governing them (ILO, 2009). Street vendors play a crucial role in the urban economy by providing employment, income and other items to the public. Since the street vendors sell cheap and affordable goods in many countries, the urban poor prefer to buy clothes and accessories from them. (Saha, 2009) Like many other African countries, the informal sector has prevailed in Kenya and it has become the country's major employer thus becoming an important component in the process of development.

In consideration to the above therefore, this research aims at adding to the existing studies on the contribution of the informal sector in reduction of poverty to the people in this category and to the country at large. This study therefore aims at answering the main question which is: To what extent is the informal sector an answer to social development in Kenya specifically on poverty reduction? It will focus on the period between 1963 when Kenya gained independence and 2014.

Further, the research will be guided by the following questions.

i. Which are the main concepts and their contribution to the study?

ii. How did the informal sector in Kenya emerge and what shaped the history?

iii. What is the status of the informal sector and the socio-economy in Kenya?

iv. What are the impacts of the informal sector on social development in relation to poverty reduction in Kenya?

The specific objectives include:

i. To explore general concepts of the informal sector and development, as a background for the analysis of the informal sector in Kenya

ii. To describe the historical background of the informal sector in Kenya

iii. To portray the current status of the informal sector and the socio-economy in Kenya.

iv. To find out the role of the informal sector on social development in relation to poverty reduction in Kenya

Given the above details, the study will be of importance and will contribute to the literature as it tries to make an understanding of the concept of the informal sector and to give an understanding of the labour force in Kenya. From the analysis it hopes to provide a contribution on the theoretical discussions on the links between informal and formal sector, employment and also development in less developed countries.

To achieve the objectives of this research, qualitative method was used. Data collection was achieved by desk study, which helped to locate books, articles in digital sources, like scientific journals and also to access online international institutions like World Bank, ILO, UNDP and papers by various scholars work and organizations to fill the gap and contribute to academic knowledge.

In order to have a clearer understanding of the informal sector in Kenya and its contribution to social development, the study used the street vendors as its methodological delimitation. Street vendors are the most visible kind of informal sector in Kenya. These vendors station themselves in strategic points such as near supermarkets, restaurants, streets and other outlets with a large population of people.

However, this study is limited by a number of factors. One of the major constrain was the lack of updated government statistical data regarding the informal sector in Kenya. However, the researcher used alternative data from other previous studies.

The structure of the thesis will be as follows; Chapter 1 presents the conceptual and theoretical framework. It gives a discussion on the concepts and theories used according to a number of scholars. Chapter 2 presents the reconstruction of the emergence of the informal sector in Kenya. Chapter 3 presents the basic information on the economic dynamics of Kenya. Further it presents the current size of the informal sector in the country. Chapter 4 presents the role of the informal sector on poverty reduction as one of the indicators of social development in Kenya. It will examine various indicators as indicated in the definitions of poverty and analyze them in relation to the categories of the informal sector.

CHAPTER ONE

THE CONCEPTUAL AND THEORETICAL FRAMEWORK

1.1 Introduction

This chapter presents the conceptual and theoretical frameworks which serves as a basis for this research. It aims at defining the main variables from different authors which include; informal sector, social development and poverty. Moreover, it also describes the main theories of the informal sector; the dualistic, legalistic, and the structuralist.

1.2 Working concepts and definitions

1.2.1 Informal Sector

Informal sector has been defined overtime by different scholars, organizations and even countries therefore lacking a clear definition. In definition of the concept, the terms informal sector and informal economy are used interchangeably and in most cases they refer to the same thing. According to (Gerald, 2005) other terms used to refer to the informal sector include the market, the shadow, and the underground economy among others.

The sector emerged at a conference at the Institute of Development Studies at Sussex in September 1971 when Keith Hart's presented a paper on "*Informal Income Opportunities and the Structure of Urban Employment in Ghana"* (Hart, 1973). Keith argued that the formal and informal sectors were working in sync. He used the concept of informality to describe the nature of employment in the informal sector to include owners of small business who were self- employed. He used the term informal sector to refer to small scale activities in the urban areas that were not formally recognized. Keith also noted that the small activities were a survival strategy to provide and entrepreneurial function and offer services that are not offered by the formal economy (Hart, 1973).

During this period, the ILO was part of a series of large multi-disciplinary 'employment missions' which started in 1968 to explore the persistent widespread unemployment in various development countries. The informal sector definition was therefore adopted by the ILO (1972) during its first mission in Kenya, which distinguished the informal sector from the formal sector on the basis of the seven traits namely:

(1) Ease of entry

(2) Reliance on indigenous resources

(3) Family ownership of enterprises

(4) Small-scale operation

(5) Labour-intensive and adapted technology

(6) Skills acquired outside the formal schooling system

(7) Unregulated and competitive market

However, even though Keith and the ILO take credit for the word "informal sector" Thomas (1992:51) points out that Reynolds had, as early as 1969, developed a model containing two urban sectors. One of these sectors, was the trade service sector, described as "the multitude of people whom one sees thronging the city street, sidewalks and back alleys in the Less Developed Countries (LDCs): the petty traders, street vendors, coolies and porters, small artisans, messengers, barbers, shoe-shine boys and personal servants". This shows that the concept was still in existence even before and the only difference is the use of the word informal sector.

Out of Hart and the ILO studies, different scholars have made an effort to come up with different definitions of the sector. In 1999 for example, the ILO/ICFTU international symposium on the informal sector proposed an International statistical definition that the informal sector workforce can be categorized into three broad groups: (a) owner-employers of micro enterprises, which employ a few paid workers, with or without apprentices; (b) own-account workers, who own and operate one-person business, who work alone or with the help of unpaid workers, generally family members and apprentices; and (c) dependent workers, paid or unpaid, including wage workers in micro enterprises, unpaid family workers, apprentices, contract labor, homeworkers and paid domestic workers. This definition was therefore based on the characteristics of the production units/ enterprises in which the activities take place.

The 17th International Conference of Labour Statisticians (ICLS) endorsed the new and broadened concept of informal employment in 2003. The new definition now refers to all employment arrangements that do not provide individuals with legal or social protection through their work, whether or not the economic units they work for or operate in are formal enterprises, informal enterprises or households. The new definition thus includes all kinds of remunerative work, both self-employment and wage employment that is not regulated, protected and recognized by the legal framework. (ILO, 2002)

For example, (Charmes 1990:12; Sethuraman 1981:4; Fields 1990:55) associate the development of the concept of informal sector with the migration of people from rural to urban areas than with population growth, which increases the labour force. Charmes writes that it was Mazundar in 1975 who introduced the informal sector as a model in which rural depopulation consisted of the following two elements: temporary migrants who came to seek employment in the informal sector because of ease of entry, and an urgent need for immediate income and permanent migrants who ultimately sought jobs in the modern sector but temporarily accepted an open unemployment situation.

He (Mazundar, 1975 apud Charmes, 1990) argues that, although this distinction between the two types of migrants could conflict, the fact remained that rural migrants who were underemployed in subsistence agriculture were attracted to the towns in the hope of obtaining a modern sector job. On failing of the formal jobs, they turned into informal sector which offered them earning opportunities at the level of simple subsistence. Similarly, Charmes (1990:10) supports the above by indicating that the 1972 report pointed out that the rural-urban migration did not give rise to high open unemployment but rather to the development of the small-scale activities which provided the rural migrants and the urban dwellers that lacked the modern jobs with a means of living and survival.

In Kenya the terms informal sector, the micro and small-business sector and the Jua kali can be used interchangeably. According to (Kimuyu, 2000) for example, the Kenyan jua kali sector is a mixture of small self-employment efforts and various enterprises covering a wide variety of activities, mainly in the urban but also found in the rural areas.

Further, Sessional Paper No. 2 of 1992 defines the category of an enterprise by the number of its employees. Thus micro enterprises are those that employ between zero and five employees; small-scale enterprises employ between 6 and 10; and small-scale industry 11 to 49 persons. However, according to the 1999 National Baseline Survey and many other studies done before, only a small proportion of MSEs employ 11-50 people. An enterprise may fall within any of these categories but be considered to be formal because it is formally registered, has permanent structures, pays taxes, is licensed, etc. A similar-sized enterprise may be described as informal or Jua Kali, because it operates on temporary premises, even though it may actually be licensed. Sometimes whether to be categorized as formal or informal may be the choice of the operator in the advantages that may be gained, for example to escape paying taxes (King, 1996).

For more understanding and for this study, informal enterprises are those consisting of both employed and self-employed workers who practice legal but unregulated activities with cash or barter as the medium of exchange, characterized by sub-standard working conditions (Edgcomb & Thetford, 2004; Todaro & Smith, 2003).

To differentiate between the sectors, in the Kenyan context, the formal (modern sector) includes the entire public sector and private sector enterprises and institutions that are formal in terms of registration, taxation and official recording (incorporated enterprises). The public sector covers all activities and establishments of the central government, its statutory corporations (wholly owned corporations or parastatals) and registered companies in which the government is a majority shareholder, and all local government authorities. Public sector activities are entirely in the modern economy. The private sector on the other hand consists of companies and businesses in the modern sector in which the government does not own majority shares, the informal sector, cooperatives, non-profit making organizations, private households employing domestic servants, and small-scale or subsistence farming and pastoral activities. Republic of Kenya, (1998, 2003)

As for this study therefore, the informal sector covers all semi-organized and unregulated small-scale activities largely undertaken by self-employed persons or those employing only a few workers, and excludes all farming and pastoral activities. The activities in the sector are carried out by artisans, traders and other operators. It uses simple technology and businesses that are not legally registered although they may be required to obtain licenses from relevant authorities (Republic of Kenya, 2003)

1.2.2 Social development

Social development was popularized in 1950’s and more in the 1960’s and 70’s. Various organizations such as United Nations promoted social development. Other international agencies such as the World Bank, the International Labour Organization (ILO), the United Nations Children’s Fund (UNICEF) and the World Health Organization (WHO) also contributed, by urging their member states to implement social development policies and programmes. The rise of neoliberalism in the 1980s however, had a profound effect challenging widely held assumptions about the role of governments in social development. This was the period when most developing countries adopted the structural adjustment programmes resulting in retrenching of the social development. It was in this context that the United Nations convened the 1995 World Summit of Social Development in Copenhagen. The definition thus can be extracted from the following passage;

> *We gather here to commit ourselves, our Governments and our nations to enhancing social development through the world so that all men and women, especially those living in poverty, may exercise the rights, utilize the resources and share the responsibilities that enable them to lead satisfying lives and to contribute to the well-being of their families, their communities and human kind. To support and promote these efforts must be the overriding goals of the*

> *international community, especially with respect to people suffering from poverty, unemployment and social exclusion*. (United Nations 1995, p. 3)

From the summit therefore, social development can be summarised as having the aim of enabling poverty eradication, employment generation and social harmony in the society.

On the contrary, Midgley (1999) approaches the concept as a way of enhancing people's welfare. He defines social development as the process of planned social change that is aimed at promoting the well-being of the populations through the integration of social and economic goals. He argues that social development is characterized by several factors; First, Social development is inseparable with economic development, and states that social development seeks to remove hindrances to economic participation, such as racial and gender discrimination, and to create a good environment for economic development.

Second, it as an interdisciplinary focus which draws on the insights of the various social sciences. It is influenced by the modern-day political economy and thus offers an interdisciplinary basis for analyzing and dealing with current social problems and for promoting social welfare. Third, Social development refers to a sense of process. This means that it involves positive change and growth to reach the desired goal.

Fourth, it is conceived as progressive in nature as it is the process of change. Fifth, the process of social development is interventionist. This means that people can make efforts through various strategies to improve their lives. Sixth, social development goals are supported by various ideologies and beliefs and are fostered through various strategies to link its efforts. Seventh, social development is concerned with the population as a whole and it is, therefore, inclusive or universalistic in scope. Lastly, social development goal is the promotion of social welfare.

From the above characteristics, Midgley approach is broad as it includes social, economic and political aspects in the society in the achievement of social welfare. The concept of social development is thus inclusive of economic development but differs from it in the sense that it stresses on the development of the totality of society in its economic, political, social, and cultural aspects (Gore, 1973).

UNDP on the other hand, has been defining human / social development as *"the process of expanding the capacity of people"* said the possibilities are allowing them to *"lead a long and healthy life, to be educated to a decent standard of living,"* as well as *"political freedom, other guaranteed human rights and various ingredients of self-esteem"* (UNDP, 2013).

Similarly, according to World Bank, social development represents a conflicting relationship between society and states which includes cooperation with governments, communities (including indigenous people in communities), civil society and the private sector. Empirical evidence and operational experience shows that social development supports economic growth and leads to better living standards (World Bank, 2016).

For this study therefore and from the above concepts, we can agree that social development aims at eradicating poverty by raising the living standards of people through the various social institutions in the society. It is also about integrating social and economic development.

1.2.3 Poverty

Defining poverty is very complex as it is multidimensional in nature and manifests itself in various forms. Poverty is perceived differently by different people and therefore having many definitions.

As seen earlier in this study, during the World Summit on Social Development in Copenhagen in 1995, there was an agreement that Poverty is a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. Moreover, it is also characterized by lack of participation in decision-making in civil and social life (UN, 1995). Poverty therefore depends on both income and on access to services.

Similarly, the United Nations define poverty in relation to the inadequacy or lack of social, economic, cultural and political entitlements. The definition reads:

> *Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go, to not having the land on which to grow one's food or a job to earn one's living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal or fragile environments, without access to clean water or sanitation.* (UN, June 1998)

According to Racelis (2003), non-poor people's definition of poverty tends to focus on factors such as: (i) lack of income, as seen in the US $ 1.00 per person per day measure, or the basket of goods approach that estimates the cost of items required to provide an individual with at least a certain threshold of calories per day; (ii) social psychology of the poor, such as attribution of apathy, hopelessness, and anomie; (iii) social exclusion of the poor, as in concepts of vulnerability, marginality, and deprivation; and (iv) political powerlessness, such as dependency, limited participation, and lack of control over one's future (Racelis, 2003).

In contrast, when asked to define poverty, the poor tend to focus on factors such as: (i) absence of physical well-being that defines a poor person as someone who is sickly, handicapped, too weak to find work, or is completely dependent on the charity of others; (ii) lack of material assets such as land, property, household equipment and furniture, and money; (iii) insecurity and vulnerability to dangers such as crime, violence, and natural or human-made calamities and disasters; (iv) lack of social support from family members, friends, neighbours, the community, and the state; and (v) lack of efficacy, as in the sense of powerlessness in dealing with the political elite or the government (Laquian, 1968; Racelis, 2003).

The above shows that definitions and conceptualizations of poverty differ in consideration to various factors such as the points of view of those studying poverty and also the category of the poor people being studied.

In Kenya for example, according to the Participatory Poverty Assessment surveys (PPAs) "Poverty is hunger, lack of shelter; sickness and being unable to see a doctor (afford medical care). Poverty can also be defined as not being able to go to school, not knowing how to read, not being able to speak properly. Poverty is not having a job and fear for the future, living one day at a time. Poverty is losing a child to illness brought about by malnutrition and unclean water. Poverty is powerlessness, lack of representation and freedom"

In conclusion, poverty can therefore be defined and measured in different ways; the common ones being direct and indirect methods. A direct definition of poverty focuses on relative deprivation (poverty seen as having unfavorable living condition), usually base on basic living requirements. The indirect poverty definition is using an indicator for consumption and living conditions such as disposable income (poor if disposable income is less than minimum subsistence) in other words it is referred to as income poverty (Dixon et al., 2002)

The variety of definitions shows that there is an interrelation between all the dimensions of poverty. For example, lack of political freedom can lead to economic poverty and health poverty while income poverty can also result into health and education poverty. In addition, the study will adopt the definition for poverty reduction from Canadian International Development Agency's (2008:1) puts it as, "a sustained decrease in the number of the poor and the extent of their deprivation by improving their socio-economic and environmental conditions and their access to decision making”

1.3 Theories of the informal sector

Over the years there has been a continuous debate among the theories of the informal economy. There are three broad approaches used and developed over the years by different scholars in the explanation of the informal sector (Sarbajit, 2010). These theories include; Dualistic, legalistic and structural.

Dualistic theory was first developed by Arthur Lewis (1954) but also adopted by the ILO (1972) among others. It assumed that less-developed countries are characterized by two different sectors, a modern and dynamic sector typified by capitalist mode of production; and a marginal or ‘subsistence’ sector dominated by agriculture, characterized by pre-capitalist modes of production.

Lewis (1954) for example analyzed how surplus labour from the traditional agricultural sector could be withdrawn and productively used in the modern industrial sector to initiate the process of development. His main focus was therefore in transition growth from a dualistic to a one-sector economy, i.e. from organizational dualism to organizational homogeneity.

According to the dualistic view, the informal economy represents a stage in a country development which is due to the lack of modern working opportunities giving opportunity to absorb the excess labour caused by the slow economic growth and the rapid population growth. This theory thus argues that the informal sector develops because the formal cannot absorb all the labour force and assumes that once the modern industrial development is attained, this sector will disappear. Dualists therefore perceive the informal sector as a reserve, safety solution, absorbing the labour during the expansion periods of the formal sector. Concurrently, the informal sector offers affordable goods and services for the marginalized people, contributing to their social integration. (Chelcea and Mateescu, 2004:8-9)

This is further supported by Chen et al (2002) in that the theory suggests that the perseverance of the small-scale activities is due to the fact that there is: lack of adequate employment opportunities for the workforce in supply, economic under-development and overpopulation.

However, (Yusuff, 2011) criticized the theory as it portrays the informal labour arrangement as taking place largely outside of the exploitative formal relations of production. This resulted to the informal sector being viewed largely with suspicion as a mere transposition of the rural subsistence sector into the urban environment.

The second approach is a reaction of the dualist theory. Structuralist theory was popularized by Caroline Moser and Alexandro Portes (among others) in the late 1970s and 1980s. The approach considers the interactions between formal and informal sectors, whether in buyer-supplier relationships, or in employment relationships such as contracting out or casualization. In this approach, the basic distinction between formal and informal activities is supposed to rely on the character of production and distribution processes. The different modes and forms of production are seen not only to coexist but also to be inextricably connected and Interdependent. The traditional sectors are marginalized and impoverished in the process of expansion of the modern sectors.

The dependent structural linkages between the informal and formal sectors are shaped by the wage and labour strategies of capitalist enterprises, which means that the formal sector utilizes cheap labour and inputs from the informal sector in their production processes. Unlike the dualists, the structuralists asserts that the growth in capitalist firms is a catalyst for the informal sector, due to the employment relationships and subordinated economic units and workers. For example, micro firms in the informal sector act as subordinated, dependent and specialized units of a formal sector (Moser, 1978) where you have the owner of the means of production producing for the market.

Therefore, structuralists rejected the dualism argument of the economic system and emphasized the way in which forms of production, productive units, technologies, and workers are integrated into various parts of the economy. However, even with the debates between the conceptual differences provided by the dualists and structuralist theories, it is clear that by the end of the 1970s, the informal sector had been identified and there are agreements between the two theories. They both focus on forms of production, identifying economic restructuring and/or crises as factors in the growth of informality and its shifting role in the 1980s, and accepting the heterogeneity of the informal economy (Rakowski 1994: 503).

Lastly, is the Legalist Approach which was popularized by Hernando de Sato in the 1980s and 1990s. His view was that the legal instruments were the main influence on the emergence and survival of the informal sector. This implies that the informal sector is comprised of entrepreneurs who want to avoid the process of formalization especially tax and registration. According to De Soto, micro-entrepreneurs will continue to operate informally as long as government procedures are costly and complicated and in most -if not all- of the Third world and ex-Soviet countries, highly corrupt.

The legalists assume that the lengthy bureaucratic procedures, complex administrative steps and the costs involved in legalizing an enterprise discourage entrepreneurs from operating legally and induce them towards informal activities. Informal sector is viewed as the optimal and coherent response of economic units to government-induced distortions such as minimum wages and excessive taxation policies.

In less developed countries, the word informal economy has generally been associated with unregistered and unregulated small scale activities or enterprises that generate income and employment for the urban poor (Bernabè 2002: 6), street vending is one such activity. Legalists focus on the link between informal enterprises and the formal regulatory environment, not formal businesses. Nevertheless “they acknowledge that capitalist interests what Hernando de Sato calls ‘mercantilist’ interests—collude with government to set the bureaucratic rules of the game (De Soto 1989 as cited in Chen 2007: 7).

The Legalist theory is however criticized for viewing the informal sector as a predicament but not a developmental tool. The theory is faulted for attributing all informal activities to government policies and ignoring the people’s desire to work informally.

Each perspective therefore contributes empirical knowledge and point out critical issues. The dualist perspective contributes information on the technical basis of production, self-employment and responses to surplus labour supply; ―Some structuralists contribute information on the way in which certain productive forms and producers are "marginalized" from benefits, disabled competitively, exploited, and subordinated by large firms in ways that contribute to capital accumulation (hence, development) (Rakowski 1994: 507). On the other hand, the legalists contribute information on entrepreneurship and the impact that institutions and state intervention have on informal activities (Rakowski 1994: 507).

1.4 Summary

This chapter presented the concepts and theories used for this study. Different variables were differently defined by the different authors. For this study, informal sector is defined as covering all semi-organized and unregulated small-scale activities largely undertaken by self-employed persons or those employing only a few workers, and excludes all farming and pastoral activities. The activities in the sector are carried out by artisans, traders and other operators. It uses simple technology and businesses that are not legally registered although they may be required to obtain licenses from relevant authorities.

On the other hand, social development aims at eradicating poverty by raising the living standards of people through the various social institutions in the society. Further, poverty is defined as sustained decrease in the number of the poor and the extent of their deprivation by improving their socio-economic and environmental conditions and their access to decision making.

Theories of the informal sector were defined and explained, which include; dualistic, legalistic and structuralist theories. Dualistic view a society as characterized by two different sectors, a modern and dynamic sector. They argue that the informal sector develops because the formal cannot absorb all the labour force and assumes that once the modern industrial development is attained, this sector will disappear. Dualists therefore perceive the informal sector as a reserve, safety solution, absorbing the labour during the expansion periods of the formal sector.

Structuralist theory reacted to the dualists with the view the informal sector is interrelated with the formal sector. They rejected the dualism argument of the economic system and emphasized the way in which forms of production, productive units, technologies, and workers are integrated into various parts of the economy.

Further, legalistic theory view informal sector as comprised of entrepreneurs who want to avoid the process of formalization especially tax and registration. The lengthy bureaucratic procedures, complex administrative steps and the costs involved in legalizing an enterprise discourage entrepreneurs from operating legally and induce them towards informal activities.

The study notes however that each perspective contributes to empirical knowledge and point out critical issues. The dualist perspective contributes information on the technical basis of production, self-employment and responses to surplus labour supply; ―Some structuralists contribute information on the way in which certain productive forms and producers are "marginalized" from benefits, disabled competitively, exploited, and subordinated by large firms in ways that contribute to capital accumulation (hence, development). The legalists also contribute information on entrepreneurship and the impact that institutions and state intervention have on informal activities.

This study will therefore use the three theoretical approaches in the next chapter, as during the process after independence, each of them helps to construct an understanding of the specific stages of employment and economics in the Kenyan development process.

CHAPTER TWO

HISTORICAL BACKGROUND OF THE INFORMAL SECTOR IN KENYA

2.0 Introduction

This chapter aims at building a historical analysis on the evolution of the informal sector in Kenya. The goal is achieved through qualitative secondary data collected in libraries and internet.

In the recent past, there has been the emergence of a consensus view combining elements from the dualist, legalist and structuralist views based on the idea of a multi-segmented labour market (Chen, 2005).

In a paper by Esther and, Madara, there is an assumption by Bacchetta et al., (2009) that the informal economy is comprised of three main segments, a lower, middle and upper-tier "… a lower-tier segment dominated by households engaging in survival activities with few links to the formal economy, as dualists suggest; an upper-tier segment with micro-entrepreneurs who choose to avoid taxes and regulations, as the legalists suggest; and an intermediate segment with micro-firms and workers subordinated to larger firms, along the lines suggested by structuralists.… Depending on the regions or countries, the relative importance of each of the segments may vary, making one or other of the three views more relevant." (p.42)

This analysis is therefore built upon the dualist, legalist and structural theories of the informal sector. In the next paragraphs we will trace and analyze how each one of the theories lead to the construction of informal sector in Kenya.

2.1 Emergence of the informal sector in Kenya

Informal sector existed in Kenya way since the colonial era. During this era, the white settlers introduced cash crops but restricted Africans from growing them. Unlike in the pre-colonial period where land was communally owned, the colonial period saw the white settlers grabbing land from the Kenyans. Moreover, the locals were also forced to cultivate the least productive lands for their own subsistence. This way, they continued to produce in low outputs and rarely there was surplus for trading. In any case, it was petty trading. According to (White JR, 1970) the British policy of colonizing white settlers in the accessible fertile areas with a temperate climate and establishing a "reserve" of other areas for African farmers led to the development of a dualistic system. This consisted of a white commercial, export-oriented farming sector and a black subsistence, food-producing sector with coffee, tea, pyrethrum, sisal, cattle, and dairying predominating in the commercial farming sector. The colonial economy therefore was characterized by settler control of farming lands, with tea and coffee acting as the major export crops designated for sale in European markets abroad.

The informal sector was attributed by the racial policies in this period, whereby Africans were discriminated in ways such as taxation which kept them in rural areas while colonizers used the cities as administration and trade center's. Industries and factories controlled by the Europeans started to emerge in the urban centers and the Africans became the laborers on cash plantations and factories.

In 1963, there was a smooth transition of power from the colonial administration to the new African regime. This ceased the rural –urban ban and therefore slowly the Africans began to migrate from the rural areas to the urban cities as Europeans offered cheap labour in their enterprises. By this time, Kenya had local factories in a range of sectors including cement, beer, biscuit, confectionary, textiles, shoes, metal and pharmaceuticals. The result of the migration was an increase in population and unemployment in the cities. Further, discriminatory policies followed where trade and finance- created "first" class markets for Europeans and "second" class markets for Africans (Lugalla, 1997).

Between 1962 and 1969 for example, an average compounded annual growth of about 9.9 percent of urban population growth was noted (Republic of Kenya, 1969). Since many Africans were illiterate and the surplus labour could not be absorbed by the formal sector, unemployed migrants started to operate as informal vendors in petty trade activities such as repairing bicycles, selling food, operating posho mills and furniture making among others. This gives a scenario of the dual economy whereby the country was progressing as a result of the industries and factories in the urban areas and on the other hand the locals were still practicing the traditional agricultural activities in small scale.

Following the period of colonization, the Kenyan society became characterized by unequal distribution of resources based on racial discrimination. The new Government intervened in reconstructing the situation in the country by adopting an industrialization strategy that relied on an import substitution strategy in which the government provided both direct support and tariff protection for the industry. This strategy was a carryover from colonial policies, and its objectives were rapid growth of industry, easing balance of payment pressures, encouraging indigenous participation in the sector, increasing productivity and high-income employment.

However, the IS policy failed to create much-needed employment because of its capital-intensive nature. Its high import content also caused major balance of payment problems. In the end, the import substitution phase and the policies that sustained it had mixed results. On the positive side, the country enjoyed a significantly high rate of industrial growth during the first decade of independence. The manufacturing sector grew at an average rate of 8 per cent and was second only to agriculture in terms of employment creation during this period. Manufacturing output grew faster than not only the rest of the Kenyan economy but also other industrial sectors in Sub-Saharan Africa. (Chege et al, 2014)

The focus of the government on the informal sector was outlined in the first policy paper on sessional paper No 10. of 1965 which advocated for mixed economy approach to economic growth. As per the document, the government was to support the newly formed African businesses in informal sector through financial, infrastructural, legal and regulative support. As a result, several institutions were established including Kenya Industrial Estate in 1967. However, the objective of bringing industrialization through informal sector businesses was not realized due to strategic and management problems in the operation of the sector leading to frequent loan defaults (McComick, 1997). Like the dualist view, the government concentrated on the formal sector after independence, resulting to its growth while the informal was neglected and was regarded as illegal thus the harassment of the workers.

During the 1960s period, urban informal sector was a common feature in most less developed countries due to the rapid urbanization experienced in the pre-capitalist cities. According to (Deborah Potts, 2007) its importance as a source of livelihood was however different due to the sheer numbers involved and the fact that rapid urbanization was occurring in many poor countries of the world without rapid growth in formal sector manufacturing that had occurred in Europe and north America in the early stages of their urbanization. This serves as a critique to the dualists for assuming a unilinear pattern on economic development in that the less developed countries would follow the same path as the developed countries.

In 1970s the focus on the informal sector came to an increase. The urban informal sector had continued to grow in cities of the less developed countries and in turn, poverty and unemployment in towns became a growing concern. Many economies in the developing world at this time were in recession. During the same period, small enterprise competitive economy was increasing in size owing to recession and subsequent liberalization (UN-Habitat, 2003). In 1972, the International Labour Organizations (ILO) adopted the dualist view and also defined the informal sector in a report on a comprehensive Employment Mission to Kenya as ’a way of doing things’ characterized by various factors such as small scale, low resource base, family ownership, labour intensive methods of production and adapted technology, skills acquired outside the formal sector and unregulated and competitive markets.

Initially, ILO considered the main aim of the informal sector to be the provision of subsistence to families but later subsequent research studies recognized another aspect of the informal sector that is, dynamism and potential for economic growth and employment. In the Kenyan report, ILO identified the main problem in Kenya as one of employment rather than unemployment. This means that in addition to the people not earning any income, there was another group of the people referred to as "the working poor". These were people working very hard but their employment was not productive enough to earn them an income which was up to a modest minimum. These economic activities outside the (regulated and monitored) formal mode of production remained unidentified as productive economic activities and these types of workers were categorized as unemployed (ILO, 1972).

Just like the views of ILO, the informal sector was then seen as a solution to poverty and unemployment and many of the characteristics previously deemed as negative were now redefined and seen as positive. It was also a source of employment to many due to its low productivity. Furthermore, the goods were sometimes cheaper because the labour was cheap or they were lower quality or they used recycled products. Classic examples are rubber sandals made from tyres, containers made from recycled metal products like oil drums, or second hand clothes. (Deborar Potts, 2007) Contrary to the dualists the structuralists argue that the formal has no complex relationship. The informal sector for example gets the raw materials for their products from the formal like pointed above.

The ILO report gave an analysis of the low incomes, income distribution and the concept of a minimum income as inherent. Moreover, insufficient incomes were closely related to inequalities of access to education and other facilities for example between regions, different social group and sexes and through these, were also closely related to urban migration and the frustration of unsuccessful job seekers. This was mostly experienced in Kenya among school leavers and their families. In the rural areas, the most important employment problem was defined as coming from lack of access to land.

It was intensified by the rapid increase in population, and for those who could not make a living in the rural areas there was the alternative of migrating to the towns, leading to rapid urban population and especially in the capital city Nairobi.(ILO,1972) The mission further directed recommendations to the Government of Kenya, of the elimination of official harassment, increased legitimacy, development of informal technology and promotion of linkages between the sector and the rest of the economy (Kimuyu et al, 2000)

In the Sessional Paper No. 10 of 1973 on employment and 1974 – 1978 national development plans, the government focused on the informal sector among other activities. However, more support on the informal sector was on the national development plan of 1979 -1983 with the plan advocating for the establishment of a venture capital fund to assist informal sector industries. This was in addition to training programmes to small business owners through rural polytechnics, Kenya Industrial Training Institute and management training advisory Centre's.

Policy proposals concerning the informal sector were dominated by the need to address its credit and extension needs of the sector. But it was in the second half of the 1980s that the policy needs of the sector become part of Kenya's political agenda as evidenced by repeated visits by the head of state to areas of Nairobi known for their concentration of informal activities. During such visits, construction of shades, formation of networks, security of tenure of informal premises, sub-contracting and inclusion of informal sector concerns in the country's industrial policy become part of the policy debate (Kimuyu, 1994).

The decade of 1980 was marked by the government implementing the structural adjustment programs (SAP) in order to, inter alia, strengthen competitiveness and reduce excess capacity in the industrial sector to address concerns raised about distortions caused by the IS strategy. Kenya was among the first African countries to adopt SAPs, in this period, after a prolonged economic decline, falling world commodity prices, fiscal and monetary instability, and rising levels of unemployment (Ikiara and Ndung'u 1999) In general, the intention was to improve the economy but they ended up altering their economies with a rapid growth of the informal sector. SAPs brought about effects such as inflationary pressure, the marginalization of the poor in the distribution of educational and health benefits and a reduction in employment (Ikiara, 1990, Mwega and Ndulu, 1994).

According to a research by (Manda and Sen 2004) Unemployment increased in both rural and urban areas and especially among women in urban areas. The reform period also witnessed a shift in labour demand in favor of highly skilled labour, a decline in permanent full-time workers and an increase in part-time and casual workers as a cost cutting strategy. It was in this period that unlike the dualists who saw the formal and the informal sectors as two separate entities, the structuralists argued that the two sectors were interlinked. In Kenya for example, as a result of less formal jobs from the government and the formal enterprises following the SAPs, there was a major shift to the informal sector and agriculture. This meant purchasing goods from the large businesses (formal) in order to sell in small portions. The link between the two sectors is therefore undeniable.

Formally, the 1986 sessional paper 1 on economic management and growth made comprehensive policy proposals on the informal sector. It indicated the importance of the sector in terms of development including its ability to conserve foreign exchange, create jobs, develop skills and promote local entrepreneurship (Kenya, 1986). It also aimed at improving the image of the sector which was already poor. Issues touched on by the sessional paper were picked up by the 1989-93 development plan (Kenya, 1989).

The government had put together what was referred to as the Centre Project in 1987, which in turn led to the Small Enterprise Development Project of 1989, which was the precursor to a sessional paper on small scale and jua kali enterprises considered a blue print for the future development of the sector. This period also saw the beginning of the Kenya Federation of Employer's organization involvement in the small-scale activities as a result of the rise in unemployment due to reductions in private sector formal employment.

In 1990, the government of Kenya properly started to liberalize the economy. It was also the period when one-party system ended in 1991. In the liberalization process, Imports controls for example were removed and also there was a shift from import substitution to export led strategy occurred. The informal sector however, faced competition from cheap imports especially from Asia and China after the liberalization of markets. Other negative effects included the shrinking of the low income goods markets due to the price hikes, retrenchments of workers and also unemployment leading to poverty. Consequently, the middle-class entrepreneurs, with better qualification, resulted in increased competition among the MSEs, differentiation and competition for the available resources. This led to the lobbying of the MSEs into large groups for advancement and development while neglecting the very small and underdeveloped MSEs. In Kenya for example, the jua kali entrepreneurs organize themselves in more modern sectors neglecting the small traders and the traditional rural traders (hawkers) (Pedersen, 2001, p.7-8).

The government has also infiltrated so much into the trade unions with the aim of acquiring the donor funding in the name of advancing the informal sector as well as gaining political influence. This was so as from the 1990s and increased development of the MSEs aimed at competing or rallying or being affiliated to the ruling party or the opposition party. This has led to the MSEs not gaining technologically as well as in the markets. In Kenya the government has been out harassing the SMEs workers especially the street vendors, although the policies state clearly supports for the SMEs. Sometimes the SMEs entrepreneurs are denied the licenses to operate as well as taxed highly and this discourages the establishment and development of the informal sector.

We can relate to the legalistic approach which argues that the informal sector is as a result of people avoiding long bureaucratic procedures in the legalization of their businesses. Sometimes the period of starting a business in Kenya takes time due to the procedure of acquiring a permit. The high taxation on the small enterprises is equally high in consideration to the returns made. The interaction between the informal sector and the state has been since independence a non-friendly one. The sector is characterized with easy entry and has low income. This prevents the workers from taxation which is an advantage to the government as they are not able to collect revenues.

Over the years, the sector has been rapidly growing and has become an avenue for job creation in Kenya. For example, about 2 million people or 16% of the labour force are employed in almost 1 million Micro and Small Scale Enterprises (MSEs) in Kenya (UN Habitat, 2003). From the above description, the sector emerged as a way of survival as a result of the rapid urbanization and poverty. However, it can also be observed that small enterprises can rise, leading to growth and development. In support of this, (Hart, 2010) says that the informal economy might be an adjunct of growth originating elsewhere or its dynamism might be an agent growth.

The sector also contributes to the country's GDP. The Economic Strategy Recovery (ERS) paper which was adopted by the National Rainbow Coalition (NARC) when it took over the government in 2003 outlined a number of economic recovery measures, key among them being the support to informal sector. Republic of Kenya, (2003). At the same period, the economic growth rate was targeted to increase from as low as 1.1 % in 2002 to 7% in 2007. By the end of ERS period in 2007, the economy was growing at 7%. This underscores the importance of the informal sector in economic growth in Kenya.

Kenya's employment creation interventions in 1990 have enabled the government to put emphasis on use of short, medium and long term measures as means of employment creation in both formal and informal. Further, the country's long term economic blueprint, vision 2030 puts great emphasis in support of the informal sector. As per the Vision's first National Medium Term Plan (MTP), 2008-2012, a total of 759,000 new jobs were targeted to be created in 2008 and a further 787,000 in 2009. According to the second annual progress report on implementation of the first MTP, the informal sector a total 433,654 new jobs in 2008 which was 92.8% of the total new jobs created in that year. In 2009, a further 390,608 new jobs were created in informal sector which was equivalent of 87.6% of the total new jobs created in the said period (Republic of Kenya 2011, P. 16-17)

The above statistics points out that the informal sector has been increasing over the years and contradicts the dualistic theory that it would disappear over time. Kenya however is not yet industrialized but rather averagely industrialized. Its large manufacturing sector serves both the local market and exports mostly to the East African region. Industrialization and manufacturing contribute to approximately 10%

of the Gross Domestic Product of Kenya per year and most of the manufacturing industries are small-scale which never last for a long period of time.

Efforts have been made on industrialization but often the attempts have failed due to different challenges. For example, the local textile industry faces competition from the imported second hand clothes and paper and food processing industries from the foreign industries. Poverty levels has also inhibited the economy and the industrial growth in Kenya as people demand for cheap products which are mostly imported rather than buying the local products.

However, according to the ILO, sometimes the small enterprises are seen as competitors of the bigger local industries. Federation of Kenya Employers and the government also now see them as an opportunity to enable micro enterprises in the informal sector to contribute towards industrialization and the creation of decent jobs and wealth.

2.3 Summary

This chapter provides a historical overview of the informal sector in Kenya. During the colonization period, Africans are discriminated through policies that kept them in the rural areas while the Europeans took over the urban cities. After colonization there was rapid rural to urban migration as the locals strived to look for employment. With no enough jobs, petty traders emerged as a way of survival. In 1972, the ILO made a study in Kenya which led to the 'discovery' of the informal sector. Following the ILO recommendations, the government started to accommodate the sector through policy papers. In the 80's the government adopted the Structural Adjustment Programs which were meant to improve the economic status of the country. During the period, the informal sector accelerates due to the negative effects of the SAPs. In the 1990s up to 2000s there was more growth of the sector due to economic liberalization. It is also clear that the government policies on the informal sector was only formulated in the latter half of the 1980's despite having policy interventions since post independent. The background gives an impression that the Kenyan can relate to the three dominant theories of informal sector. Currently, the importance of the sector cannot be ignored as an avenue for job creation among many Kenyans. The idea of dualism however has been dominantly over stated by many authors due to the ILO report. However, the structuralist and legalistic can also be observed throughout the history. Formal and the informal sectors are for example linked in the buyer–supplier relationships and legalistic has been influenced by the characteristics of the informal sector such as the low incomes and ease entry. Since the informal is most a survival strategy, the individuals involved avoid paying the taxes to increase their income. The process of starting a business is also long and complicated for a micro-enterprise.

CHAPTER THREE

THE INFORMAL SECTOR AND SOCIAL-ECONOMY IN KENYA

3.1 An overview of the social-economic status

Kenya, officially referred to as the Republic of Kenya, is a sovereign state located in East Africa. It lies on the equator with the Indian Ocean to the southeast, Tanzania to the south, Uganda to the west, South Sudan to the north-west, Ethiopia to the north and Somalia to the north-east. It covers 582,646 km2 of which 571,466 square kilometers are the dry land area. The country has some amazing features including Mount Kenya which is the second highest mountain in Africa; Lake Victoria, the largest freshwater lake on the continent; the Great Rift Valley, which runs from north to south; and Lake Nakuru, a major tourist attraction due to the presence of flamingos.

It is also the regional trade hub of East Africa, for financial, communication and transport services. The Mombasa port at the coastline serves not only Kenya but also other countries like Uganda, Tanzania, the Democratic Republic of the Congo, Southern Sudan, Rwanda, Sudan, Ethiopia, and Somalia. Kenya is a country that 75 percent of its population depends on natural resources in which the agriculture, livestock, horticulture, wildlife based tourism, forestry and fisheries are ranked as the most productive sectors (UNDP and GOK, 2013).

Kenya’s chief export products include tea, coffee, fruits, vegetables and fresh flowers. Other exports but are minor include limestone, soda ash, salt, fluorite and deposits of gold and precious stones. Tourism is also an important aspect in the economy as Kenya attracts tourists to the game reserves, national parks, sandy beaches and coral reefs. The leading imports are machinery, transportation equipment, petroleum products, motor vehicles, iron and steel, and plastics. The discovery of mineral wealth especially oil, gas and rare earth elements is set to boost the GDP (UNDP 2015).

However, Kenya faces Development challenges such as poverty, inequality, and vulnerability of the economy to internal and external shocks (World Bank, 2016). Since 2014, Kenya is regarded as a lower middle income country since its per capita GDP passed the World Bank threshold. Agriculture is the key to Kenya's economy, and plays a very crucial role in the rural areas. The sector employs more than 40 per cent of the total population and more than 70 per cent of Kenya's rural people. The sector accounts for 65 per cent of the export earnings, and provides the livelihood (employment, income and food security needs) for more than 80 per cent of the Kenyan population and contributes to improving nutrition through production of safe, diverse and nutrient dense foods (FAO, 2017).

According to the online nations encyclopedia, farming in Kenya is typically carried out by small producers who usually cultivate no more than two hectares (about five acres) using limited technology. These small farms, operated by about three million farming families, account for 75% of total production. Although there are still important European-owned coffee, tea, and sisal plantations, an increasing number of peasant farmers grow cash crops.

Kenyan Population has been on the increase overtime (See table 1). The UN data projects that rapid growth rate is set to continue and will grow by around 1 million per year 3,000 people every day over the next 40 years and will reach about 85 million by 2050. Between years 1999 and 2009 for example, the population grew with approximately one million. The annual population growth is around 2.8% becoming one of the highest in the world. Most people live in conditions where education, economic security, and planned parental hood are not playing main role in their lives (World Bank, 2016).

Population is high in the rural areas than the urban areas but due to the search for a better life, many youths are migrating to the cities. This is evident in the big cities like Nairobi and Mombasa where there is rapid expansion of slums.

According to Deshingkar and Grimm (2005) most of the migrant workers find jobs in the urban informal sector which then leads to low productivity and a limited chance to move away from poverty. Almost two million households in Nairobi employ domestic workers, such as cooks, gardeners and maids, with anecdotal evidence suggesting that most originate from rural areas (Hughes, 2008) with a variety of them being young in search of better living conditions in the cities. As a result of the congestion, these people lack basic services like water, sanitation, health services and even security.

Adepoju (1991) writes that there is a variety of consequences of migration in the urban areas including overcrowding and congestion, strain on urban social services, rising food costs, worsening air and water diseases among others.

In 2012, the government of Kenya launched a new policy on population and national development. The policy was described in the Sessional Paper No. 3 of 2012; it outlined the goal of attaining a high quality of life for the people of Kenya by managing population growth to a level that could be sustained with the available resources. The principal objective of the policy was to provide a framework to guide national population programs and activities for the next two decades (National Council for Population and Development [NCPD], 2012).

Table 1: Selected Demographic indicators for Kenya 1963, 1980, 2000 and 2014

Primary Demographic indicators	**1963**	**1980**	**2000**	**2014**
Total population (millions)	8.9	16.2	31.0	44.8
Annual growth rate	3.2%	3.8%	2.5%	2.6%
Density (pop/ km2)	15.7	28.6	54.6	78.8
Crude birth rate (per 1,000 people)	51	49	38	35
Crude death rate (per 1,000 people)	19	11	13	8
Total fertility rate (births per woman)	8	7	5	4
Infant mortality rate (per 1000 births)	107	69	67	37
Life expectancy at birth	48	58	51	62

Source: World Bank

The rapid population increase is also interrelated with the fertility rate. Research shows that Kenyan women begin childbearing early. Nearly one in four young women aged 15-19 have already had a child. This indicates that Kenyan women gives birth to an average of four children, a number higher that the global average of 2.5. This leads to school drop outs who mostly end up in informal sector as it is characterized by ease entry.

However, over the year’s fertility rate has reduced in Kenya due to various factors like the use of contraceptives. A report by the Population Reference Bureau shows that women empowerment in Africa has contributed to the progress especially in education, governance, employment, fertility and health. In Kenya today, the report shows that in every ten women, five use modern child control methods.

Further, Kenya is a youthful nation, meaning that the majority of the population is below 35 years. Moreover, the group below the working age (0-15 years) is higher resulting to high dependency ratio. According to the World Bank Indicators in 2014, the dependency ratio of the young (0-15years) in Kenya was 76% per 100 working population while the dependency ratio of the old (above 64) per 100 working population was 5.0%.

This puts a strain on the social-economic resources and affects the savings and investments of a household. Moreover, in relation to this study, the high dependency ratio of the young people increases the strain on the income earners. Kenya suffers from high rate of youth unemployment which then affects the potential for enhancing savings.

Infant mortality has decreased to 37 deaths per 1,000 live births in 2014 from 67 in 2000 However, it is still relatively high. In the last decade, HIV/ AIDs virus and other diseases like malaria were major factors contributing to the high mortality rate. The decrease is related to the use of mosquito nets among children and improved maternal care.

Further, a report by the UN’s World Health Organization reported that life expectancy in Kenya has increased drastically to an average pan of 65.8years for female and 61.1years for males, bringing to a total life expectancy of 63.5 years. Kenya is still faced by health related issues, affecting mostly the poor and vulnerable population who are mostly in the informal sector or are not employed.

Table 2: Education Indicators for Kenya (1990-2014)

Indicator	1990	1995	2000	2005	2010	2014
Expected years of schooling	9.1	8.7	8.4	9.7	11.0	11.0
Mean years of schooling (years)	3.7	4.5	5.3	5.8	6.1	6.3

Source: UNDP (2015)

In regard to education, (table 2) indicates that over the years Kenya has had an increase in the literacy levels, with the expected years of schooling going higher. In 2003, the former government regime introduced free primary education and in 2008 free secondary education. This resulted to an increase in school enrollment which has also been evident in colleges and universities. However, the quality and access to the free education is still questionable. Some marginalized communities for example cannot access schools and therefore cannot read and write. In most cases, those who cannot access education end up in the category of unemployed and the informal sector as it is easy to join compared to the formal.

Regional inequality therefore exists in Kenya, leading to an overall average of 30.7% in 2014. (Table 3) In the same report, Kenya leads among its peer countries, with the HDI Value of 0.535 but when the value is discounted for inequality, the value falls to 0.360. The value is low, ranking the country at 145 in 2013. Research shows that inequality in Kenya is more in the urban areas than in the rural areas especially in

Nairobi which is the capital city. One of the main reasons is the migration from different parts of the country to the city where sometimes people go with nothing with the hope of getting a sustainable job but instead end up in slums due to lack of jobs.

In an article by the Business Daily newspaper (February12, 2017) a study by the University of Bath states that almost all informal workers are poor and most of the working poor are informally employed as most have no secure income, employment benefits and social protection. The study argues that this is because the activities of informal firms are often hidden from public scrutiny and not subject to labour standards such as minimum wages, decent and non-hazardous working conditions.

Further, the workers in the informal sector are vulnerable as they are paid less than formal workers and do not have benefits such as health insurance or even workplace insurance in the event of hindrance of accidents at work.

Table 3: Comparison of Kenya Human Development Indices with other similar countries

Country	**IHDI Value**	**Rank**	**% Overall Loss**	**Inequality Expectancy at birth %**	**% Education Inequality**	**%Income Inequality**
Kenya	0.360	145	32.8	31.5	30.7	36.0
Tanzania	0.356	151	27.1	30.4	29.5	20.9
Cameroon	O.339	153	32.8	33.8	29.4	27.3
SSA	0.334	-	33.5	36.6	35.7	28.1
Low HDI	0.332	-	32.4	35.0	38.2	23.9

Source: Human Development Report, 2014

Poverty level in Kenya is still high even with the increase in the economic status, school enrollment and literacy levels. Research shows that Kenya is among the ten countries in Sub Saharan Africa with large populations living in extreme poverty. There are very few surveys in Kenya regarding poverty. In 2006, the national poverty level was at 46 percent (KIHBS, 2005/2006). Table 4 shows that poverty head count ratio (proportion of people living below poverty line) is on the increase in Kenya. Moreover, the rural percentage is higher compared to the urban percentage.

One of the causes of the high poverty rate disparities is the income inequality. Most of the rural people are involved in small-scale agriculture and informal work which is associated with low income compared to the formal employment. Other causes of poverty in Kenya include the high population, unemployment and rural-urban migration among others.

Table 4: Poverty Head Count (%)

Level	2005\06	2010	2011	2012	2013
National	46	50	49.7	50	50
Rural	49.1	55	55	55	55
Urban	34	36	36	36	35

Source: World Bank, 2015, KIPPRA, 2014

Efforts have been made to reduce the high levels of poverty in the country but poverty still remains high limiting the process of development. With the rapid increase in the informal sector, it would be right to assume that the sector can be a tool to the reduction of poverty since such a large labour force is able to earn an income. This will be discussed more in the next chapter.

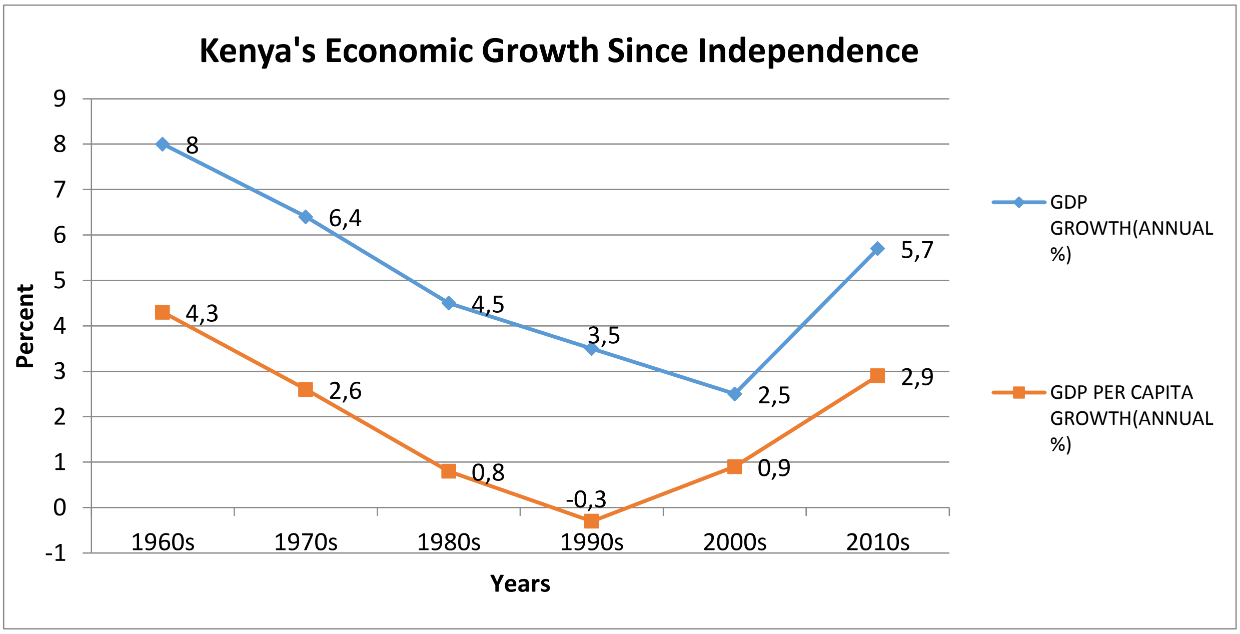
In Kenya, economic growth is highly correlated with the development of agriculture. After independence, Kenya promoted rapid economic growth through public investment, encouragement of smallholder agricultural production, and incentives for private often foreign industrial investment.

The country's growth performance can be sub-divided into three major broad phases: a rapid growth phase over 1964-73 an era of external shocks over 1974-89 dominated by oil price shocks, a coffee boom and structural adjustment and an era of liberalization, inconsistent donor inflows and economic stagnation from 1990 to 2002 leading to recovery as from 2003.

As illustrated in figure 1, Kenya's GDP has been inconsistent since independence in 1963. After independence, there was high economic growth and dropping very low in the following years. GDP grew at an annual average of 6.6% from 1963 to 1973 and 7.2% during the 1970s. This was attributed then by the increase in the price of coffee which is Kenya's main export before falling to less than 10%. Agricultural production grew by 4.7% annually during the same period, stimulated by redistributing estates, diffusing new crop strains, and opening new areas to cultivation. Moreover, in this period, agriculture was the main engine of growth for Kenyan's economy.

Between 1960s and 1970s the growth rate fluctuated due to factors including the political independence from the British rule, world oil shortages in the early 1970s, increase in world demand for coffee in 1976 and 1977, and the collapse of the East African Community in 1977. (The EAC was an economic partnership among Kenya, Uganda, and Tanzania that failed due to ideological differences). High population growth and the drought and famine during the period were also some of the contributors.

Figure1: Graphs showing Kenya's Average Economic Growth in the Year 1960 to 2014



Source: World Bank.

Although the economy was better in the late 1980s, it started declining continuously from the 1990s resulting to the GDP falling below 1.5%. From 1991 to 1993, Kenya had its worst economic performance since independence. Growth in GDP stagnated, and agricultural production shrank at an annual rate of 3.9%. The government's budget deficit was over 10 percent of GDP and these problems led to bilateral and multilateral donors suspended program aid to Kenya in 1991. Inflation reached a record 100% in August 1993. There were internal and external shocks including a drought in 1992 and 1993, deteriorating terms of trade; increases in oil prices due to the Gulf war and also the decline of foreign investments.

As the economic crisis deepened, the government, under pressure from the Bretton Wood financial institutions began implementing a major program of market-oriented reforms and economic liberalization in 1993. Price controls, import licensing and foreign exchange controls were removed and, a range of publicly owned companies were privatized. A number of civil servants were retrenched under the civil service reform, while conservative fiscal and monetary policies were introduced. The role of state in the economy was also greatly reduced, with greater emphasis on the role of private sector and growth of the informal sector.

Suspension of funding in 1997 due to government's failure to make significant moves on governance reforms was a major blow to the economy, which was already experiencing hard economic times. Coupled with the effects of adverse weather conditions in 1997, economic growth further stagnated in 1997. The government began a major agenda of economic reorganization and liberalization with the backing of the IMF and the World Bank to offer loans to prevent the economic crisis after falling to 0.2% in 2000.This came with its repercussions resulting in accumulation of foreign debts.

As from 2000, the level and intensity of the china involvement in Kenya also increased. By 2010 China had become the leading source of Kenya's foreign direct investment (FDI), investing KES 2.5 billion into the country's economy (Kenya Investment Authority, Annual reports 2010). However, the impact of Chinese investment and aid to Kenya has been mixed. The low import prices of Chinese consumer and producer goods have created competition and therefore reduced monopolistic tendencies among Kenyan enterprises, but on the other hand employees and firms are negatively affected by the influx of cheap products. (Ombaba et. al, 2012)

During President Kibaki's first term in office (2003-2007), the Government of Kenya began an ambitious economic reform program and resumed its cooperation with the World Bank and the IMF. There was some movement to reduce corruption in 2003, but the government did not sustain that momentum. Economic growth began to recover in this period, with real GDP growth registering 2.8% in 2003, 4.3% in 2004, 5.8% in 2005, 6.1% in 2006, and 7.0% in 2007. Again, after going up to 7% in 2007, it reduced to 0.2% in 2008. This was the period after the post –election violence. At the same time, Kenya was undergoing food and oil crisis, thus affecting the economy.

However, Kenya was able to recover from the 2007-2008 financial crises enabling an average growth rate of 5.6 per year with 2010 growing with the highest economic growth of 8.4%. Later the country recorded a GDP of 60.94 billion US Dollars (World Bank, 2014), with an economic growth rate of 6.1per cent, 4.6 percent, 5.7 percent and 5.3 percent in the year 2011, 2012, 2013 and 2014 respectively (KNBS, 2015). Since 2000, Kenya has undergone an appreciable process of diversification, moving from broadly agriculture-based economy to a service-based economy.

Kenya has the potential of having a high economic growth but it has a lot of challenges like informal sector which is generally characterized by low productivity, vulnerability of employment, and low incomes. However, it is an avenue for many job seekers in Kenya. Further, this indicates that a majority of the working population in the country does not regularly pay taxes which would enable the government to create a better environment for income generation.

3.2 Characteristics of the informal sector in Kenya

Deducting from the previous chapter, Informal sector in Kenya mostly referred to as ‘jua Kali’ a Swahili word meaning hot or fierce sun. It implies that many small scale, manufacturing and repair activities are conducted in the open air (Livingstone, 1991). It is mainly concerned with production, distribution and sale of household, farming and industrial items (Mpapale, 2014).

Further, the Kenyan informal sector usually operates on small-scale, locally and at a subsistence level. They have fewer employees (especially home-based enterprises), they operate for a shorter period, and have poor access to water and electricity and few sell outside the establishments where the entrepreneurs live (World Bank, 2006).

Ouma (2010) & Waris (2009) argue that the informal sector is an economy whose activities take place outside the state due to mistrust in state institutions, lack of representation and lack of appreciation by policy makers of the role of this sector in job creation, poverty alleviation and economic growth. Additional elements in Kenya is that the informal economy relate to informal enterprises that are not registered for and often do not have a Personal Identification Number (PIN) with KRA, and do not have a business license or VAT number, yet are trading, conducting business and contributing to the economy (Were, 2016).

The informal sector is however roughly divisible into two: the small informal productive sector and the mainly survivalist activities. The small informal productive sectors are those elements of the informal sector that are given descriptions such as “sustainable”; “emergent” or “entrepreneurial” The incomes from these enterprises can be significantly higher than those of the lower ranks of the formal sector. The enterprises are considered important for poverty alleviation and are important producers of goods, services and employment.

In contrast the survivalist activities are engaged primarily in commerce but are mainly involved in basic and low quality forms of production with the intention of earning income to meet subsistence needs (KIPPRA, 2002) Most of these activities are not included in the Gross Domestic product (IEA-Kenya 2012) since their production is not accounted for and they generally don't remit any taxes except for the business permit fee they pay to the local governments. However, the (KNBS Economic survey 2012) estimates that the sector accounts for 25% of the national GDP.

The informal sector in Kenya serves as a provision for employment opportunities and income generation for a majority of the people. The Agricultural sector in Kenya is however excluded in the coverage of informal sector activities. As shown below (figure 5) and from the historical background, the formal sector was the main employer in the early years after colonization. However, at the time the informal sector was also growing, recording a 10% growth rate from 1972-1979 against 4% on the formal sector.

The performance of the formal sector has been affected by a number of factors. These include the economic recession of the early 1990s occasioned by adverse weather conditions, and reduced economic activity in the main sectors of agriculture, and manufacturing.

In this period (1990s) more growth was recorded on the informal sector, employing more than double formal population recorded in the previous years. Statistics show that employment in the informal sector for example, expanded from about 2.2 million people in 1995 to 3.4 million in 1998. This was the period when the country's economy was on the decline due to various economic and political reforms. In relation to the table 5 below, we note that in the year 2000, formal employment accommodated 1,695,000 against 4,217,000 people in the informal sector.

A decade later, the formal sector employment increased to a figure of 2,016,000 while the informal sector doubled to around 9,441,000 people. From these figures we note that despite an increase in both sectors, the informal is on the dominance. The data therefore indicates a slow rate of economic growth in the country leading to less formal and more informal sector. The sector has rapidly been on the increase even today and has become one of the important economic factors in the process of development in Kenya.

Table 5: Growth of employment in Formal vs. Informal sectors

EMPLOYMENT			ANNUAL GROWTH RATE		
Year	Formal Sector	Informal Sector	Years	Formal Sector	Informal Sector
1972	8,004,000	72,000	1972-79	4%	10%
1980	1,006,000	185,000	1972-79	4%	10%
1990	1,410,000	484,000	1980-89	3%	10%
2000	1,695,000	4,217,000	1990-99	2%	26%
2010	2,016,000	9,441,000	2000-09	2%	8%
2013	2,266,000	11,259,000	2010-13	4%	6%

Source: Kenya Youth Assessment Report, 2014

3.2.1 Informal workers by age

Majority of the people working in the informal sector are the youth, defined in Kenya as persons aged 15-34 years. The World Bank estimates that nearly one in five Kenyan youth of working age has no job, against one in every 20 in the neighboring countries- Uganda and Tanzania. This is supported by the last census in Kenya (2009) data, which indicate that unemployment is particularly high among youths. The rate of unemployment was highest among the ages 15-19 (24.3%) 20-24 (27.1%) and 25-29 (25.5%)

A research by the ILO on the drivers of the youth labour market in Kenya indicated that the young people in Kenya are underrepresented among the employed population. Moreover, the persons aged 15 to 24 accounted for less than 20 per cent of total employment in 2011. Further, (Kaane, 2014) states that the rate of youth unemployment in Kenya is at 67%. These youths therefore find themselves in the informal sector as it is characterized with ease of entry. As noted by (Balwanz, 2012) by the year 2011, nearly 40% of Kenyan youth aged 14-35 were neither in school nor at work with the informal sector activity forming nearly 80% of the jobs.

According to UNDP (2013) the rural labour markets are dominated by the youths in the informal employment activities including the traditional farming. The research also shows that the age bracket employed in the informal business is between 15-24 years both in rural and urban areas. The formal employment among the youths is only visible as from the age of 25 while the highest proportions of people in the formal employment are those aged between 43 and 45 years. One of the challenges concerning the statistics on youths in the informal sector in Kenya is that the government data provided is not in segments of age and gender.

3.2.2 Gender

Informal employment is in general a larger source of employment for women than for men in the developing world. In Sub-Saharan Africa, 84% of women non-agricultural workers are informally employed compared to 63% of men. In Latin America the figure is 58% of women in comparison of 48% of men, while in Asia the population is 65% for both men and women (Chen, 2004).

In Kenya for example, there is a general inequality in access to opportunities between men and women even though there has been an improvement compared to the past years. Men still dominate in assets, earnings education and employment at the work place. In addition, men largely control decision making on household expenditure, thus constraining women's ability to make strategic investments. This affect the women's ability to improve their human capital status and hence their access to employment (ILO, 2004).

Statistics indicate that in Kenya, informal sector is mostly dominated by women while the formal is largely by men. Other sources show that men dominate in both informal and formal sectors. Either way, the men have a higher hand in employment opportunities more than women. According to UNDP 2002, labour force participation for women is higher in the rural areas than for men. It is estimated that women form 70% of the total labour force in agriculture and are mostly in small scale subsistence production.

In addition, rural women in Kenya are among the poorest segments of the national population both in terms of their structural positions in the household and in the market place. Since they lack access to the formal employment, the alternative jobs are in agriculture, domestic work and self- employment in the informal sector.

Further, most of the urban poor are in the informal sector and the majority of them are women. Some of the reasons which limit women's participation in the modern wage sector include lower level of education, lack of skills, heavy domestic workload and cultural stereotypes. This therefore leads to income inequality and poverty in women than men. Research also indicates that the earnings in the informal and formal sectors continue to be wide.

In 2011 it was reported that 83% in the informal employment were female compared to 71% of males. It is also estimated that women own and operate at least half of all MSEs in Kenya, 85% of which operate in the informal sector and two-thirds in rural areas. The over-representation of women in the informal sector can be explained by the lack of enough formal jobs, ease of entry in the jobs, use of simple technology and lack of adequate education and skills among others.

As a way of reducing poverty and to aid the women in generating more income, the government has together with some financial institutions have been lately setting credit schemes targeting small-scale entrepreneurs. Other non-governmental organizations include FAULU Kenya, Kenya Rural Enterprise Programme (K-REP) and the Kenya Women Finance Trust (KWFT)

Table 6: Gender distribution of the labour force by employment categories for both rural and urban areas in Kenya

Employment categories	Total sample		Female		Males	
	Rural	Urban	Rural	Urban	Rural	Urban
Public sector	844	581	204	208	640	373
	4.2%	15.6%	1.9%	11.2%	6.9%	20.0%
Private formal sector	628	630	123	153	505	477
	3.1%	16.9%	1.1%	8.2%	5.5%	25.6%
Informal sector	2,422	1,206	795	509	1,627	697
	12.0%	32.4%	7.3%	27.4%	17.6%	37.4%
Agriculture	6,408	215	2,903	116	3,505	99
	31.9%	5.8%	26.7%	6.2%	37.9%	5.3%
Unpaid family work	8,512	727	6,166	640	2,346	87
	42.3%	19.5%	56.8%	34.4%	25.3%	4.7%
Unemployed	1,296	365	663	235	633	130
	6.4%	9.8%	6.1%	12.6%	6.8%	7.0%
Total	20,110	3724	10,854	1861	9256	1863
	100%	100%	100%	100%	100%	100%

Source: Rosemary Atieno (2010)

A research was done by Rosemary (2010) sampling a total adult population of 27,767 of which 13,277 were males and 14,490 females (table 6) It asserts the above explanation which indicates that male employment was more than the women both in rural and urban areas. We observe that women were more involved in the unpaid family work, agriculture and informal sector in the rural areas accounting to 57%, 27% and 8% respectively.

The table above also indicates that public sector and the private formal employment is mostly to be urban areas than in the rural areas. The informal sector employment is however more in the rural areas than in the urban areas accounting for 32% and 12% respectively. The sector also employs more people than the formal sector which in the research accounted for 44% compared to 40%.

3.2.3 Categories of informal activities

Informal sector activities in Kenya are both visible and invisible. This sometimes leads to a variety of assumptions as researchers mostly concentrate on the visible establishments. In Kenya, the sector is divided into several industries (1) Manufacturing (2) Construction (3) wholesale and retail trade, hotels and restaurants (4) Transport and communications and (5) Community, social and personal services. The majority of the people are employed in the wholesale and retail trade, hotels and restaurants (GOK, 1998).

Manufacturing: The sub-sector is made up of both the formal and informal but the formal manufacturing jobs often require higher levels of education and educational qualifications, thus barring the entry of millions Kenyans into the formal sector as the average number of years of schooling in Kenya is 6.5 years.

Informal manufacturing in Kenya is dominated by furniture making and metal work. According to (Kinyanjui, 2010) informal manufacturing and industry produce various products such as: *Extractive industries*: saw milling; soapstone and other small-scale mining; sand harvesting, *Manufacturing*: agro-processing and value addition; metal – grills, gates, auto-parts, school trunks, household appliances; garments – child, women and men's wear; school uniforms; furniture – household, office, recreational facility furniture, upholstery, school equipment; leather and shoe making; chemicals – candles, paints, spirits, soaps, detergents.

Construction: In a meeting of the CIB Task Group 29 in Arusha, 1998 the informal construction sector was defined as comprising "unregistered and unprotected individuals and small enterprises that supply labour and contribute in other ways to the output of the construction sector" These small enterprises and individuals are mainly engaged in housing and building construction activity but it is now recognized that they also supply labour to contractors engaged in large projects in other sections of the industry (Mlinga and Wells, 2002).

Much activity in the informal construction system (but not all) takes place outside of the system of planning control by constructing houses without building permits or planning permission and often without legal title to the land. In Kenya a significant percentage of buildings/houses are constructed in “informal settlements”. In these settlements there are no clear titles to land, no land set aside for public utilities such as schools, parks or transportation corridors, and no urban infrastructure such as water, sewerage, electricity or paved roads.

The Kenyan construction industry comprises a large number of enterprises of various sizes, owned by different ethnic groups. Kenyans of foreign, mostly Asian, origin still dominate the industry. Kinyanjui and Mitullah (1999) have argued that although Asian owned firms may be regarded as local, they have preferential access to finance outside the official bank system, and bank loans at fair interest rates and remission, which enables their businesses to thrive and operate in the formal system. The majorities of the workers are hired as casual labourers and work under difficult and dangerous conditions with no benefits (Kinyanjui and Mitullah, 1999).

Wholesale and retail trade, hotels and restaurants: This category accommodates most of the informal employees. The sector has continued to grow due to very low barrier entry and unrestricted competition. Moreover, this category of people operates in temporary premises or shifting locations, employs ten persons or less, deals in second hand goods, sells prepared food, operates on an illegal basis, and does not observe fixed hours of operation. These characteristics, in wholesale and retail trade, hotels and restaurants continue to attract most of the informal activities (Onchwari, 1992).

Transport and communication: This category is mostly included in services. The transport sector is comprised of small owners and self-employed workers who provide services using more or less well-maintained minibuses (Matatus) In an article by Nderitu, he notes that Public transport in Kenya is mainly dominated by the informal sector, both in the rural and urban areas. Conditions for workers in the informal transport sector are often very poor and therefore workers have started forming unions as a strategy for better conditions.

With the emergence of phone money transfer technology in Kenya, most businesses are transacted and money transferred through the phone or received as liquid cash. The phone system can also be used by the vendors as their banking system which means they don’t have to bank their money with traditional banks (Ndaka and Katee, 2017).

Community, social and personal services: This category includes Small-type services like, footwear repair, bicycle repair, bakery, barber shops, laundries, photo studios and private clinics. In most cases these activities are prevalent in the rural areas (Onchwari, 1992).

Table 7 indicates that a majority of the informal workers are in the Wholesale and Retail Trade, Hotels and Restaurants, and followed by Manufacturing. There is also an indication that the informal sector is prevalent in both rural and urban settings. However, more of the people were in the rural areas accounting for 60.1 per cent of the total number of persons engaged.

Table 7: Estimated Numbers of Persons Engaged in the Informal Sector by Activity

Activity	**2010**	**2011**	**2012**	**2013**	**2014**
Manufacturing	1,845.5	1,893.0	1,956.4	2,124.1	2,236.3
Construction	232.6	251.7	270.4	277.9	290.6
Wholesale and Retail Trade, Hotels and Restaurants	5,470.8	5,787.6	6,130.9	6,364.9	6,733.2
Transport and communications	509.1	651.6	747.4	875.5	991.0
Community, Social and personal Services	896.5	932.1	985.2	1,031.0	1,089.5
Others	416.6	432.6	438.2	476.7	502.9
Total	9,371.1	9,948.6	10,528.5	11,150.1	11,843.5
Urban	3,082.7	3,245.3	3,405.5	3,973.7	4,723.6
Rural	6,288.4	6,703.3	7,176.4	7,176.4	7,119.9

Source: Economic survey, 2015

The retail trade and sales of food and drinks are most regular house hold business in both the rural and urban areas. However, sales of clothing, furniture, beauty salons, car wash, auto- repair and barber shops activities are mostly in the cities and much less in rural areas. Others include clothes washing, food vendors and hawking.

In contrast, the agricultural related industries like the grain milling and charcoal burning are important in the rural areas than in the cities. Others include produce seller (A produce seller rents out a wooden station in the town market where they sell fruits and vegetables) light manufacturing, carpentry, and tailoring (UNDP, 2013; Everleigh et. al., 2017).

Over the years, the employment structure has shifted with nonfarm informal sector employment absorbing more new workers than both the farming and the formal sectors. The informal sector is also noted to have more young people which results to lowering the average age of the working age population. Further there is an increase in the number of women involved in the informal sector activities as compared to the past.

As the country continues to modernize, the informal sector is no longer confined of low artisan work but also includes other areas such as ICT and related service enterprises mostly in found in the urban areas. This can also be attributed by the increase access to education.

In an article on the Daily nation newspaper (July, 2016) the writer notes that according to a survey by the World Bank, nearly three-quarters of the surveyed owners of firms were under 40 years, and a majority of enterprises were established after the year 2000. In many of jua kali firms, owners have some form of education, with three-quarters having undergone vocational training or secondary school.

According to a report by the Central Organization of Trade Unions in Kenya, Majority of informal workers are now becoming organized into associations, cooperatives, and, to some extent, unions. There are eleven umbrella associations/unions representing informal workers in Kenya. The associations represent more than 600 informal sector groups. Several informal sector unions are collaborating with COTU even though not yet being affiliated.

3.3 Summary

This chapter aimed at giving an overview of the social-economic status of the case study and the informal sector. The country's growth performance can be sub-divided into three major broad phases: a rapid growth phase over 1964-73 an era of external shocks over 1974-89 dominated by oil price shocks, a coffee boom and structural adjustment and an era of liberalization, inconsistent donor inflows and economic stagnation from 1990 to 2002 leading to recovery as from 2003.

Kenya is presented as a country that heavily relies on agriculture and tourism sector. The country's economy however relies on the agricultural production. It is also the regional hub of East Africa for financial, communication and transport services. However, it faces various development challenges such as poverty.

The chapter also gives an analysis on the size and characteristics of the informal economy in Kenya. It is evident that the informal sector is the major employer in Kenya and it operates in small –scale. In the earlier year's agriculture and manufacturing were the main activities contrary to the current times where wholesale and retail trade, hotels and restaurant services dominate. There is also a change in the informal activities whereby due to modernization, there is also the presence of technology related informal activities.

Majority of the actors in the sector in Kenya are the youth (15-34 years) and are mainly found in the rural areas. In addition, they are now more educated most having at least the secondary education or the vocational training.

In terms of gender, the women are more involved than the men who mainly are easily accommodated in the formal sectors. Between the rural and the urban dwellers, the rural women are the poorest category in the country, both in terms of their structural positions, household and in the market place. Lastly, we see the organization of the informal sectors of which the findings indicate that there are at least six unions in Kenya.

In order to understand more about the informal sector in Kenya, the next chapter will analyze how the sector affects social development in the effort of poverty eradication.

CHAPTER FOUR

IMPACT OF INFORMAL SECTOR IN SOCIAL DEVELOPMENT IN KENYA

4.0 Introduction

The dissertation so far as presented in the previous chapters indicates that the informal sector is an important factor in the Kenyan economy. In chapter 2, we saw how the informal sector emerged in Kenya, the different social, economic and political events that shaped the historical path and also through the different theories used for this study. Chapter 3 also gave us an understanding of the scope of the study and the size of the informal sector with the focus on the workers and their activities. The economic performance since independence reflects a rapid growth of the informal sector, contrary to the down fall of the formal.

The role of the informal sector cannot be underestimated especially in developing countries. However, the contribution of the sector varies from country to country (Charmes 2012; Chen 2013). Contrary to the traditional view of the informal sector as a transitional marginal phenomenon, recent studies indicate that it may be more of a long term feature of developing economies particularly in Africa and Latin America where the sector continue to expand (Bekkers and Stoffers, 1995; Charmes, 2000).

In Kenya, as analyzed in the previous chapters, the sector has grown dramatically since the independence. According to Charmes (2012) approximately 70–80% of the population in Kenya among other sub Saharan countries sustain their lives and livelihoods through engaging in non-agricultural employment in the informal sector. There has been a significant debate however, on the contribution of the informal economy to the alleviation of poverty. The relationship of the sector and poverty is contradictory as on one hand, it is viewed as an important element to poverty reduction while on the other hand it sustains poverty among the individuals involved.

An example is a study by (Kachere and Wadzanai, 2011) investigating the impact of informal trade on poverty reduction in Zimbabwe shows that the informal cross border trade contributes positively to poverty reduction. The contribution though, has been realized through the improvement in the socio-economic well-being of traders, traders to acquire assets, and improved food security.

Another study in India in an attempt to explore the connection between informal trade and poverty show that the growth of informal wage in the informal sector is capable of reducing the incidence of urban poverty. The study argues that, real informal wage increased with trade reform and transmitted favorable impact on urban poverty reduction (Kar and Marjit, 2009).

This chapter therefore, in line with one of the study objectives seeks to analyze the contribution of the informal sector to the social development in Kenya with the reduction of poverty and as an indicator.

4.1 The role of the informal enterprises on poverty reduction in Kenya

In this chapter, the researcher will rely on the street vendors as a methodological delimitation of the informal sector as indicated earlier. To understand the contribution of the informal sector to poverty reduction, several indicators were adopted from the various definitions of poverty. These include; income, employment, contribution to tax revenue, distribution of employed by age, number of household responsibility, education and capacity to create new jobs.

These indicators will help to establish the profile of the people involved in the sector and how they contribute to the reduction of poverty. However, considering this research is based on secondary data, some of the indicators would be better with primary data. For example, social psychology of the population analyzed such as attribution of apathy, hopelessness and anomie (Racelis, 2003).

4.1.1 Structure and operational mode of street vendors

These are sub-sectors of the MSES that dominate the Kenyan economy. They are defined as informal traders who sell goods or services outside of any enclosed premise or covered workplace. However, there are two categories of street vendors. Those that operate from fixed locations and mobile vendors. It is one of the means for the urban poor to earn a livelihood and of 30-90% of street vendor’s workers are women (ILO, 2002)

These workers have no specific hours of working. In Kenya, street vendors begin work as early as 5.30 am but trade until around 9 pm. Those trading late are located in areas with concentration of people such as transport nodes, bus parks/stops, clubs and other night spots. (Mitullah, 2004) They are also characterized by lack of stability. The (ILO, 2002) asserts that some vendors only sell in the morning, afternoon, or evening, while some sell only on weekends and others sell only during certain seasons.

Street traders use different methods and structures for displaying their commodities. The methods include: piling commodities, for examples fruits, onions and tomatoes, loose vegetables; and using measuring equipment such as tins, spoons, and baskets among others. The structures used for displaying commodities include tables, racks, wheel burrows, handcarts, and bicycle seats. Others traders display their goods on the ground, over mats or gunny bags, while others simply carry their commodities on their hands and shoulders. There are also those that hang their goods such as clothes on walls, trees, fences and an advanced group that construct temporary shades with stands for displaying their commodities (Mitullah, 2003).

Street trade in Africa is an activity for women, men and children. However, women dominate the trade. Most hawkers are aged between 20 and 50 years, with few traders falling below 20 years and above 50 years. Children as young as ten years of age have been found hawking along streets and roadside. Some of these children assist their parents and relatives, whereas in some cases they are entrepreneurs in their own right. Majority of those engaged in the activity are married and have formal primary education. (Charmes, 1998)

Commodities of trade are many and vary across countries and cities. The most common commodities include fruits and vegetables, cereals, fish and meat products, processed food products, cosmetics, second hand clothes, plastic products. Other commodities include: cooking oils, sugar, stationary, detergents, curios, cigarettes and services such as hair dressing, shoe and watch repairs, sale of traditional herbs and medicines, transporters and newspaper vendors (Tendai, 2003)

4.2 INDICATORS

4.2.1 Income

Informal firms receive, on average a very low—not sufficient, on average, to maintain the people working in them above the official poverty line (Pollin, 2007). According to the Kenya National Bureau of Statistics (KNBS), the poverty line in Kenya is determined by the household consumption expenditure required to purchase a food basket that fulfills the minimum nutritional requirements (set at 2,250 calories per adult equivalent per day) and to meet the costs of basic nonfood items such as schooling, health, transportation and rent.

(Mayieka, 2003) observed in his study on poverty in the informal sector in one of the markets in Nairobi that On average, the income within the informal sector was Kshs. 6,268 monthly which was higher than the absolute poverty line of Kshs. 2,648. The lowest income was Kshs. 2,000, which was recorded in all the sectors under study including metal work, wood work textile works, leather works and hawkers. The highest monthly income of Kshs 40,000 was recorded in the woodworks industry. 55% of the entrepreneurs in the informal sector had incomes ranging from Kshs 2,000 to Kshs 2,647.

The incomes earned by the street vendors lead us to the following questions; do the earnings satisfy their basic needs? What kind of conditions do these workers live in? Are they able to access clean water and sanitation? Are they able to save? According to (Sen, 1999) poverty is lack of freedom to choose. Therefore, do the informal workers have the ability to choose between different ways of living?

In an article on the street vendors in Nairobi, (November 29, 2012) it was reported that street vendors calculate their revenue by the day or the month, depending on the nature of their business. A magazine salesman for example claimed to be making at least KSh 7000(68USD) in a good month although revenue of KSh 3000(29USD) to KSh 4000(39USD) is more common. For a brother and sister who ran a fruit stand, they earn a profit of KSh 700(7USD) that they share on average. However, during the rainy season the profits are low. Considering the case above, it is clear that the earnings are not consistent and the monthly incomes are also lower than the minimum wage in Kenya which is 12,926 Shillings. In addition, urban areas have high costs of living which lead to majority of the informal workers to live in slums or informal settlements.

Due to lack of statistical data on the incomes of the street vendors, it is very hard to estimate the exact earnings. However, from the above findings we can conclude by answering the above questions that the informal sector and specifically the street vendors have low monthly earnings which serve as survival strategy in the urban areas. On this account, these workers are not able to improve their living standards but rather just for each day, are not able to save for the future and mostly forced to live in slums. However, some of the informal subsectors like the wood works have higher incomes which we can therefore categorize as productive micro enterprise which have the potential to reduce national and household poverty.

4.2.2 Contribution to tax revenue

In a study by KIPPRA (2002) the MSE sector to GDP was estimated at 18.4 percent. The study indicated there were 1.3 million MSEs in Kenya, employing an estimated 2.4 million people. After a decade, the informal sector was estimated to be 34.3% and accounting for 77% of total employment (IEA-Kenya 2012). The MSEs leads to more goods in the market, through increased production leading to the informal sector contributing significantly to gross domestic product.

Tax is the largest source of government resources which in turn raises the national revenues resulting in provision of public goods for the population. The Kenyan government unfortunately loses revenue shares since majority of the labour force are in the informal sector. That being the case, the informal sector has the potential to increase the GDP and economic status of the country leading to the reduction of poverty. However, most of the informal workers escape the payment of taxes as the earnings are very low. In addition, other factors also influence on the lack of tax payment. Mpapale (2014) argues that, "the sector operators who may be willing to register themselves and their business are usually discouraged by the fact that there are too many legislative and administrative bottlenecks". The government lacks the tax relevant information like the amount of income farmers, small and medium scale entrepreneurs receive annually (IEA-Kenya 2006).

An example is a vendor who hawks fruits and ice-cream during summer but during winter he moves into clothes business. Such a vendor has no specific area he is operating from nor does he have specific goods because he works with the season and provides the goods and services required for that season.

This is also related to the legalistic theory which supports that the informal sector emerges as a strategy to avoid the payment of taxes and other bureaucratic processes. Most of the informal workers are involved with fights with the city council police as they are seen to operate illegally. In Nairobi city, fines range from Sh1,000 to Sh2,000 for hawking, an amount that can be doubled or tripled if combined with charges for other offences, say, littering, making noise, or obstructing human traffic. However, the World Bank (2012) disagrees with the theory arguing that, by not paying taxes the informal sector economy does not necessarily evade tax but the aim is to preserve its income and therefore it activity is classified as coping and/or survival activity and not illegal business.

However, in a study on street vendors in Nakuru town in Kenya, the vendors insisted that they pay taxes through the money they contribute to pay for the working space. The money therefore is used for the growth of the municipality and to pay the workers (Roever and Sally, 2014). This shows the mentality of the informal sectors understanding of what tax is.

4.2.3 Distribution of employed by age

The age distribution was aimed to know which category of people is more engaged in street vending and to find out whether it was dominated by children, adolescents or aged. According to UNDP (2013), 37% of household enterprises are owned by the youth. Young people (aged between 18 and 34 years old) constitute more than a third at 35% of the entire population. Kaane (2014) points out that youth unemployment is at 67%. The informal sector thus accommodates the youths who may be involved in crimes and other illegal activities.

A socio-economic survey on street vendors in Nairobi reported that most of the informal traders are young adults (aged 25-34) in the most productive period in life. Almost all of them (98.2%) have some level of formal education with more than half (51.7%) having secondary education level of education. Slightly above 5% have post-secondary education (NCBDA, 2004).

In a study by (Hussein, 2014) out of the 50 respondents, 9 hawkers (18%) were below the age of 20, and 22 of them (44%) were between the ages 20-24; the number of hawkers who were between the ages of 25-29 years were 10 (20%) and 09 of them (18%) were 30 years and above. This is an indication that the youths are the most affected group. The presence of children as hawkers is also an affirmation of poverty among the workers as they lack the chance to go to school. These children mostly work in order to help their parents who are also street vendors. This is also a violation of human rights and lack of freedom.

4.2.4 Household responsibility

The question here is how many people in a household are impacted by the working person considering the household size in Kenya is 4.4 persons per household? According to the Kenya Demographic and Health Survey (KDHS) report (2014) on average, a rural woman has nearly twice the number of children as her urban counterpart while the poorest family in Kenya today has three times as many children as a rich one, the poorest families have high level of dependency, each having as many as seven children (fertility rate of 6.5) compared to just three (fertility rate of 2.8) for rich families.

The World Bank seeks to broaden the concept of poverty beyond that of lack of income by identifying poverty as related to high dependency ratios (high proportions of households being the youth and the old), female headship and illiteracy (Mayieka, 2003). In most cases, people engaged in vending are bread winners taking care of large families that include dependents and therefore are poor.

To affirm the above, a study conducted in five towns from different countries, showed that the average number of household members among street vendors in the sample was 4.7. More than two thirds of vendors lived in households for which street vending provided the main source of household income. In Accra, Ahmedabad, Lima and Nakuru except Durban, over 88 per cent of vendors relied either on their own work as street vendors or the informal work of another household member. In addition, 62 per cent reported that the household has no alternate source of income. For example, government grants, unemployment insurance, worker’s compensation, rental income, retrenchment packages, parental child maintenance payments, remittances, and pensions (Roever and Sally, 2014).

This is a clear indication that the earnings are for survival as most of the vendors have many dependents. However, to an extent, these workers reduce the levels of hunger in a household as approximated by the number of the informal workers in the country and the average size of the household.

4.2.5 Education

Education is one of the priorities of the Kenyan government. This has led to introduction of free primary and secondary education and also it is evident by the increasing levels of literacy.

Literacy levels in Kenya have been relatively high. The street vendors research conducted in Kenya in 1998 (Graham et al 1998) on street trade showed a great improvement compared to a study conducted in 1990 (Mitullah, 1990). A further study conducted in 2000 also confirms the improved level of education. In the study, majority (91%) of respondents had formal education. Those with primary education accounted for 56.1 per cent, while those with secondary education were 33.6 per cent and one person with university degree (Alila and Mitullah 2000).

The above is a clue that the informal sector is increasing even with the access to education an indication that poverty affects not only the illiterate as unemployment and population expands. Increase in the level of education should increase access of the formal employment but formal employment is still a challenge in Kenya.

4.2.6 Capacity to create new jobs

The purpose here is to find out if the street vendors have the capacity to build new jobs and how they impact on the reduction of poverty in those households.

Research shows that most informal workers, including the majority of informal street vendors, are self-employed own account workers: generally, they are not wage employees; they do not work on commission for formal firms; and they do not employ paid workers (Roever and Sally, 2014).

However, Charmes argues that street vendors might not be as independent as they appear. Some of them are agents of the formal. They may purchase or hire the goods they sell from the same supplier. They may be given goods by the supplier who pays more or less the equivalent of salary (Charmes, 1998).

Either way, the informal jobs continue to increase in the country. According to the Kenya National Bureau of Statistics' economic survey, in 2012 for example, 74,000 new jobs were created in the "modern sector" and over 445,000 new jobs, or six times as many, in the informal one. These workers however are not able to employ others as many of them work solely and in small-scale.

Many of the informal traders therefore "barely make enough money to keep them above the poverty line, forcing them to engage in risky coping strategies to ensure the well-being of their families. These include cutting back on food consumption and doing away with healthcare, to ensure they can afford to feed the family and keep their children in school. In times of crisis, though, it is girls that are often withdrawn from schooling first, often to assist with domestic responsibilities in the home or to assist their parents in their informal trading" (Saranel, 2015).

4.3 Summary

The aim of this chapter was to analyze the contribution of the informal sector to the social development in Kenya through poverty reduction. In this study, the street vendors were used as a methodological delimitation of the informal sector. Further, the study used several indicators from the various definitions of poverty to understand the contribution of the informal sector to poverty reduction. These were income, employment by age, household responsibility, education and capacity to create new jobs.

The chapter also indicates that the street vendors can be categorized as either fixed in one location or are mobile. They have low incomes and most of them are youths aged 25-34 years. There is also the potential to increase the national revenues through taxation but unfortunately it is noted that many escape the payment of taxes due to their nature of work. Even with the high literacy levels, there is an increasing number of informal workers contrary to the expectation that the formal jobs should increase with the literacy levels.

The chapter also looked at the characteristics of the street vendors which include long hours of work, lack of stability and domination by women. These women balance between child-rearing and trading. Moreover, most of them have dependents thus end up earning for survival.

The indicators therefore show that the informal sector play an important role in the Kenyan economy and especially the street vendors as it enables the majority of the population who cannot get the formal employment to attain an income. Majority of the street vendors earn a low salary thus not able to reduce poverty as they do not have savings.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the findings and conclusions of the study and finally makes recommendations derived from the conclusions.

This study sought to establish the role of the informal sector in social development with a focus on Kenya. The study was guided by four objectives namely: To explore general concepts of the informal sector and development, as a background for the analysis of the informal sector in Kenya, to describe the historical background of the informal sector in Kenya, to portray the current status of the informal sector and the socio-economy in Kenya, to find out the role of the informal sector on social development in relation to poverty reduction in Kenya.

5.1 Conclusions

Several conclusions can be drawn from this study. Throughout recent decades as seen in chapter one, instead of disappearing as the modern economy expanded, the informal sector has actually grown in Kenya. The size of informal sector in Kenya is observed to be over eighty per cent of the total labour force.

The structural adjustment in the mid-1980s, coupled with the inability to provide employment for the emerging labour force has created a large pool of unemployed persons who have leaned towards the informal sector and more vulnerable forms of employment.

The increase in the informal sector points out the structural fragility of Kenya's economy. However, it has a substantial contribution to the lives of the poor in the urban areas that otherwise remain below the poverty line. Most of the workers join the sector as a way of survival.

Kenya has a national minimum wage which applies to all forms of employment. Majority of informal sector workers are self-employed and are in control of their income which unfortunately are below the minimum wage. Incomes in the informal sector are therefore irregular and can be subjected to environmental and market factors (demand and supply).

In addition, to earn an income in the sector, one has to work for long hours and be strategic on the location. It is also notable to conclude that the informal sector has created a business or an entrepreneur culture in Kenya, as the sector is characterized with easy entry leading to economic growth.

The informal sector also plays a role in the reduction of the household poverty but does not reduce the overall national poverty. Though not everyone in the sector is poor, the productivity and incomes of most of the workers is quite low. The intensity of poverty would be much higher without this sector for those who are failing to secure employment opportunities in the formal sector.

5.2 Recommendations

There is no doubt that the informal sector in Kenya contributes to the economy by creating jobs. In order to reduce poverty levels however, it is necessary to increase the productivity and earnings of the informal sector. For example, the productive informal enterprises that have the potential for economic growth should be assisted in such a way they can graduate to the formal sector. Formalization of informal enterprises is not only by registration, but also regulations which help informal sector take the possible advantages to operate sustainably.

The government and other stakeholders should consider the extension of the available permanent business premises in order to have a strategic location that can allow access to market and basic infrastructure facilities such as water, toilets, electricity and other buildings.

The government should also strategize on how to create more formal jobs for the many unemployed and underemployed population. Consequently, it should support the informal sector and provide an enabling environment for the traders. They should borrow from a country like India for example which recognizes street vending as an economic sector.

The study also recommends that the government of Kenya, policy makers, the International community and other stakeholders with interest in employment matters should pay attention on measures that ensure social economic development that will enhance job creation in Kenya and specifically to the youths.

The existing trade unions should also put efforts to organize the informal workers and to promote their self-organization. They should set a database on the informal sector that consists of their needs in order to help the sector.

The traders should also empower themselves by the formation of strong associations so as to be able to air their challenges and also be involved in policy making especially in the urban planning.

Lastly, regular surveys regarding the informal sector should be undertaken in Kenya for better understanding of the sector. The data collected about the sector is limited and is lacks specific details on the informal economy.

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